syhibit 58. Television Properties — Granite Broadcasting

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EXTITUTE					1996	1996 Gross	\$1,996		
					in-Market	Market	Station Ad		
					Viewership	Revenues	Revenues	Revenue	
Market	Market Rank	Station	Affiliation	Channel Frequency	Share(1) (%)	(S MM)	(\$ MM)	Share	Oversell(2)
San Francisco	5	KOFY	WB	20/UHF	5	\$574	\$20	3	0.7
San riuman	9	WDWB	WB	20/UHF	8	\$359	\$ 23	6	8.0
Detroit Buffalo, NY	40	WKBW	ABC	7/VHF	32	\$102	\$29	29	0.9
витаю	55	KSEE	NBC	24/UHF	26	\$67	\$ 15	22	8.0
Fresno	60	KEYE	CBS	42/UHF	24	\$76	\$14	18	0.8
Austin	72	WTVH	CBS	5/VHF	28	\$48	\$13	27	1.0
Syracuse Fort Wayne, IN	102	WPTA	ABC	21/UHF	31	\$32	\$12	36	1.2
المستحد	110	WEEK	NBC	25/UHF	40	\$31	\$12	39	1.0
Salinas/Monterey(San Jose)	121	KNTV	ABC	11/VHF	16	\$ 52	\$19	37	2.3
	134	KBJR	NBC	6/VHF	39	\$17	\$6	34	0.9
Tracket Alemerauth Quale adness a re	elevision station's viewersh	ip share divided b	y total of viewership shares for	all commercial television stations.					
(2) Overself is the ratio of station revenue s	share to "in-market" audier	ce share.							

Note: Station List is Representative of All Announced Acquisitions or Dispositions
Source: BIA Investing in Television '97; Nielsen Media Research; Bear, Stearns and Co. Inc.

Exhibit 59. Granite Broadcasting Corporation Combined Operating Cash Flow and Income Statement — Quarterly 1997 and 1998E

	1Q 1997	2Q 1997	3Q 1997	4Q 1997	1997	10 1998	2Q 1998E	3Q 1998E	4Q 1998E	1998E
Net Broadcasting Revenues	\$32 .3	\$41.3	\$37.2	\$42.7	\$153.5	\$36.7	\$45.5	\$38.7	\$45.0	\$165.8
Total Cash Operating Expenses	(19.8)	(20.8)	(21.0)	(22.2)	(83.7)	(22.3)	(24.0)	(21.5)	(21.7)	(89.6
Broadcast Cash Flow	\$12.5	\$20.6	\$16.2	\$20.5	\$69.8	\$14.4	\$21.4	\$17.1	\$23.3	\$76.2
Corporate Overhead	(1.5)	(1.8)	(1.7)	(1.7)	(6.6)	(2.0)	(1.9)	(1.6)	(1.6)	(7.1)
Operating Cash Flow (EBITDA)	\$11.0	\$18.8	\$14.5	\$18.8	\$63.1	\$12.4	\$19.5	\$15.5	\$21.7	\$69.1
Plus: Film Payments (Cash Flow Basis)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0,0
Less: Amortization	(\$3.2)	(\$3.5)	(\$3.6)	(\$3.6)	(\$13.8)	(\$3.6)	(\$3.6)	(\$5.4)	(\$5.4)	(\$17.B
Less: Depreciation	(\$1.4)	(\$1.4)	(\$1.4)	(\$1.5)	(\$5.7)	(\$1.4)	(\$1.6)	(\$2.1)	(\$2.1)	(\$7.2
Less: Non-Cash Compensation (Com. Stock)	(\$0.2)	(\$0.2)	(\$0.3)	(\$0.3)	(\$1.0)	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.3)	(\$1.2
Less: Time Brokerage Agreement Fees	(\$0,2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.6)	(\$0.2)	(\$0.2)	\$0.0	\$0.0	(\$0.3
Operating Income	\$6.1	\$13.5	\$9.1	\$13.3	\$42.0	\$7.0	\$13.9	\$7.8	\$13.9	\$42.6
Int. and Amort, of Debt Discount Exp.	(\$9.8)	(\$10.0)	(\$9.7)	(\$9.5)	(\$39.0)	(\$9.2)	(\$9.7)	(\$10.7)	(\$10.7)	(\$40.3
Equity in Loss at Datacast	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.3)	(\$1.5)	(\$0.5)	(\$0.5)	\$0.0	\$0.0	(\$1.0
Other Income (Expense)	(\$0.2)	(\$0.1)	(\$0.4)	(\$0.4)	(\$1.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.9
Non Cash Interest Expense	(\$0.6)	(\$0.6)	(\$0.5)	(\$0.5)	(\$2.2)	(\$0.5)	(\$0.6)	(\$0.5)	(\$0.5)	(\$2.1
Pretax Income before Unusual Items	(\$4.8)	\$2.4	(\$2.0)	\$2.5	(\$1.8)	(\$3.5)	\$2.9	(\$3.7)	\$2.5	(\$1.7
Taxes - Federal and State	(\$0,2)	(\$0.2)	(\$0.2)	(\$1.0)	(\$1.6)	(\$0.5)	(\$1.6)	(\$0.9)	(\$0.9)	(\$3.8
Loss before Extraordinary Items, net of Tax	(\$5.0)	\$2.2	(\$2.2)	\$1.5	(\$3.5)	(\$3.9)	\$1.3	(\$4.5)	\$1.7	(\$5.5
Extraordinary/Discontinued Items										
Extraordinary (Loss)/Gain	(\$0.3)	\$0.0	(\$5.2)	\$0.0	(\$5.6)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Sale of Television Property, net of Taxes	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$51.7	\$0.0	\$0.0	\$51.7
Cum. Effect of Change in Accting Principle	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net income (Loss)	(\$ 5.3)	\$2.2	(\$7.4)	\$1.5	(\$9.0)	(\$3.9)	\$ 53.0	(\$4.5)	\$1.7	\$46.2
Preferred Dividends - Cumulative Exchangeable	(\$3.3)	(\$5.0)	(\$5.0)	(\$5.3)	(\$18.6)	(\$5.1)	(\$5.3)	(\$5.4)	(\$5.6)	(\$21,4
Preferred Dividends - Cumulative Convertible	(\$0.9)	(\$0.9)	(\$0.9)	(\$0.9)	(\$3.5)	(\$0.9)	(\$0.9)	(\$0.9)	(\$0.9)	(\$3.5
Net Income/Loss Applicable to Common Stockholders	(\$9.5)	(\$3.7)	(\$13.3)	(\$4.7)	(\$31.2)	(\$9.9)	\$46.8	(\$10.8)	(\$4.8)	\$21.3
Statistics										
Margins (Percent of Net Revenues)	101997	2 <u>01997</u>	301997	<u>401997</u>	FY1997	101998E	201998E	3Q1998E	401998E	EY199
Cash Operating Expenses	61.3%	50.2%	56.4%	52.0%	54.5%	60.8%	52.9%	55.7%	48.3%	54.01
Film Payments	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.09
Broadcast Cash Flow	38.7%	49.8%	43.6%	48.0%	45.5%	39.2%	47.1%	44.3%	51.7%	46.05
Corporate Overhead Operating Cash Flow	4.6% 34.1%	4.4% 45.4%	4.5% 39.1%	3.9% 44.1%	4.3% 41.1%	5.5% 33.7%	4.2% 42.9%	4.1% 40.2%	3.6% 48.2%	4.39 41,79
Growth Rates	******									
Television Revenue	12.8%	21.7%	26.1%	15.1%	18.9%	13.7%	10.0%	4.0%	5.2%	8.09
Operating Expenses	13.0%	22.0%	20.2%	10.4%	16.1%	12.7%	15.8%	2.6%	-2.3%	7.01
Broadcast Cash Flow	12.5%	21.4%	34.6%	20.8%	22.3%	15.3%	4.1%	5.8%	13.4%	9.2
Operating Cash Flow	8.9%	17.8%	34.6%	22.0%	20.8%	12.4%	4.0%	6.9%	15.0%	9.49
Shares/Per Share										
Average Oustanding Shares for EPS Calculation	8.8	8.8	8.8	8.8	8.8	9.5	9.5	9.5	9.5	9.5
EPS (Average Shares) - Before Extraordinary Items	(\$1.04)	(\$0.42)	(\$0.92)	(\$0.54)	(\$2.93)	(\$1.05)	(\$0.51)	(\$1.14)	(\$0.51)	(\$3.20
EPS (Average Shares) - Net Loss	(\$1.08)	(\$0.42)	(\$1.52)	(\$0.54)	(\$3.56)	(\$1.05)	\$4.94	(\$1.14)	(\$0.51)	\$2.24

Source: Bear, Steams and Co. Inc. estimates.

Exhibit 60. Granite Broadcasting Corporation Combined	1996	1997	1998E	1999E
Net Broadcasting Revenues Total Cash Operating Expenses	\$129.2 (\$72.1)	\$153.5 (\$83.7)	\$165.8 (\$89.6)	\$176.3 (\$94.1
Film Payments	\$0.0	\$0.0	\$0.0	\$0.0
Broadcast Cash Flow	\$57.1	\$69.8	\$76.2	\$82.2
Corporate Overhead	(\$4.8)	(\$6.6)	(\$7.1)	(\$7.5
Operating Cash Flow (EBITDA)	\$52.3	\$63.1	\$69.1	\$74.7
Dis: Film Payments (Cash Flow Basis)	\$0.0	\$0.0	\$0.0	\$0.0
Less: Amortization	(\$11.8)	(\$13.8)	(\$17.8)	(\$21.4
Less: Depreciation	(\$6.1)	(\$5.7)	(\$7.2)	(\$9.1
Less: Non Cash Compensation (Com. Stock)	(\$0.5)	(\$1.0)	(\$1.2)	(\$1.2
Less: Time Brokerage Agreement Fees	\$0.0	(\$0.6)	(\$0.3)	\$0.0
Operating Income	\$33.8	\$42.0	\$42.6	\$43.0
Int. and Amort. of Debt Discount Exp.	(\$36.9)	(\$39.0)	(\$40.3)	(\$39.7)
Equity in Loss at Datacast	(\$1.0)	(\$1.5)	(\$1.0)	\$0.0
Other Income (Expense)	(\$1.0)	(\$1.2)	(\$0.9)	(\$0.2)
Non Cash Interest Expense	\$0.0	(\$2.2)	(\$2.1)	(\$2.2)
Pretax Income before Unusual Items	(\$5.1)	(\$1.8)	(\$1.7)	\$0.9
Taxes - Federal and State	(\$0.8)	(\$1.6)	(\$3.8)	\$0.0
Loss before Extraordinary Items, net of Tax	(\$5.9)	(\$3.5)	(\$5.5)	\$0.9
Extraordinary/Discontinued Items				
Extraordinary/Discontinued (Loss)/Gain	(\$2.9)	(\$5.6)	\$0.0	\$0.0
Sale of Television Property, net of Taxes	\$0.0	\$0 .0	\$ 51.7	\$0.0
Cum. Effect of Change in Accting Principle	\$0.0	<u>\$0.0</u>	\$0.0	\$0.0
Net Income (Loss)	(\$8.8)	(\$9.0)	\$46.2	\$0.9
Preferred Dividends - Cumulative Exchangeable	\$0.0	(\$18.6)	(\$21.4)	(\$24.1)
Preferred Dividends - Cumulative Convertible	(\$3.5)	(\$3.5)	(\$3.5)	\$0.0
Net Income/Loss Applicable to Common Stockholders	(\$12.3)	(\$31.2)	\$21.3	(\$23.2)
Statistics	•			
Margins (Percent of Net Revenues)	FY1996	FY1997	FY1998E	FY1999E
Cash Operating Expenses	55.8%	54.5%	54.0%	53.4%
Film Payments	0.0%	0.0%	0.0%	0.0%
Broadcast Cash Flow	44.2%	45.5%	46.0%	46.6%
Corporate Overhead	3.7%	4.3%	4.3%	4.2%
Operating Cash Flow	40.5%	41.1%	41.7%	42.4%
Growth Rates				
Television Revenue	29.3%	18.9%	8.0%	6.3%
Operating Expenses	30.1%	16.1%	7.0%	5.0%
Broadcast Cash Flow	28.3%	22.3%	9.2%	7.9%

26.4%

8.6

(\$1.09) (\$1.43)

Shares/Per Share
Average Oustanding Shares for EPS Calculation
EPS (Average Shares) - Before Extraordinary Items
EPS (Average Shares) - Net Loss
Source: Bear, Stearns & Co. Inc. estimates.

Operating Cash Flow

9.4%

9.5

(\$3.20) \$2.24 8.2%

9.5

(\$2.44) (\$2.44)

20.8%

8.8

(\$2.93) (\$3.56)

	1997	1998E	1999E
Income Statement Flows			
Operating Cash Flow	\$6 3.1	\$69.1	674-
Plus/(Minus) Other Income	(1.2)	(0.9)	\$74.7
Less: Interest Paid	(39.0)	, ,	(0.2)
Less: Taxes Paid		(40.3)	(39.7)
Less: Cash Dividends Paid (Cumulative Exchangeable)	(1.6) 0.0	(3.8)	0.0
Less: Cash Dividends Paid (Cumulative Exchangeable)		0.0	(24.1)
Net Income Statement Flows	<u>(3.5)</u> 17.9	(3.5)	2.0
	17.9	20.6	10.7
Balance Sheet Flows - Maintenance Working investment	(0.0)	(E.O.)	(0.4)
Capital Expenditures(Maintenance)	(9.0)	(5.0)	(2.0)
	(5.9)	(7.0)	(6.5)
Capital Expenditures(Digital)	<u>0.0</u>	0.0	(5.0)
Balance Sheet Flows - Maintenance	(14.9)	(12.0)	(13.5)
Free Cash Flow from Core Operations	3.0	8.6	(2.8)
Acquisition/Sale of Television Properties/Investments			
Television Station Acquisitions	(173.2)	(193.2)	0.0
Radio Station Acquisitions	0.0	0.0	0.0
Television Station Dispositions	0.0	170.0	0.0
Datacast, LLC - Investment (With LIN, Chris-Craft, and Schurz)	(1.5)	0.0	0.0
Closing Costs	(6.0)	0.0	0.0
Acquisition/Sale of Television Properties	(180.6)	(23.2)	0.0
Financing Activities			
Subordinated Debt Raised	0.0	175.0	0.0
Subordinated Debt Repurchased	(82.9)	(23.0)	0.0
Cumulative Preferred Stock Raised	150.0	0.0	0.0
New Public Equity Raised - Net Proceeds	0.0	0.0	0.0
Refinance/Mandatory Amortization of Debt	0.0	0.0	0.0
Payment of Deferred Financing Fees	(0.2)	0.0	0.0
Other	(8.1)	(7.3)	0.0
Borrowed/(Applied) from/ to Revolver	120.5	(130.0)	10.0
Financing Activities	179.3	14.7	10.0
Net Increase/(Decrease) in Cash	1.6	0.1	7.2
Statistics:			
Free Cash Flow from Operations per Average Share			
Shares Outstanding	18.4	18.4	18.4
FCF from Ops. per Share (No Preferred Div) - Shrs Out. (Incl. Conv. of Preferred)	\$0.35	\$0.66	\$0.04
FCF from Ops.per Share (Includ. Convertible Preferred Div) - Shrs Out. (Incl. Conv. of Preferred)	\$0.33 \$0.16	\$0.47	(\$0.15)
FCF from Ops.per Share (Includ. All Preferred Div) - Shrs Out. (Incl. Conv. of Preferred)	\$0.16	\$0.47 \$0.47	(\$0.15)
	30.10	90.47	(30.13)
Net Debt & Cumulative Exchangeable Preferred Stock			
Cash Accumulation	\$2.2	\$2.3	\$9 .5
Projected Debt - Year-End	\$392.8	\$414.8	\$424.8
Projected Net Debt - Year-End	\$390.6	\$412.5	\$415.2
Cumulative Exchangeable Preferred Stock	\$168.6	\$190.0	\$190.0
Total Net Debt and Cumulative Exchangeable Preferred Stock	\$559.2	\$602.5	\$605.3
Pro forma OCF	\$60.6	\$66.4	\$74.7
Lèverage	300.0	φυυ.4	\$14.7
Leverage - Net Debt - Pro forma OCF	6.4	6.2	5.6
Net debt plus Cumulative Exchangeable Preferred Stock - Pro forma OCF	9.2	9.1	8.1

Source: Bear, Stearns and Co. Inc. estimates.

Exhibit 62. Granite	Broadcasting	Valuation Us	ing Discount	ed Cash Flow	/ Analysis	
EXIII						1999

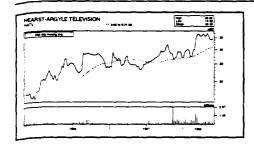
Bit 42.		1999E	2000E	2001E
Cash Flows for Valuation Purposes				-
Pretax Income		\$0.9	\$10.2	\$20.7
Plus: Interest Expense		\$39.7	\$40.0	\$ 39.9
Unleveraged Pretax Income		\$40.6	\$50.2	\$60.7
Taxes	40.0%	(\$16.2)	(\$20.1)	(\$24.3)
Unleveraged Net Income		\$24.4	\$30.1	\$36.4
Noncash Expenses		\$31.7	\$31.7	\$31.7
Working Capital Investment		(\$2.0)	(\$2.0)	(\$2.1)
Capital Expenditures		(\$6.5)	<u>(\$6.5)</u>	(\$6.5)
Unleveraged Free Cash Flows from Operations (FCF)		\$47.6	\$ 53.3	\$59.5
Terminal Value of FCF Assuming Perpetual Growth Rate of	5.3%			\$996.0
Cash Flows for Valuation Purposes		\$47.6	\$53.3	\$1,055.5
Equity Value				
Enterprise Value (NPV) Using Discount Rate of	11.5%	\$943.8		
Debt Outstanding - End of Year 1998		(\$414.8)		
Preferred Stock		(\$190.0)		
Cash - End of Year 1998		\$2.3		
Equity Value		\$341.3		
Share Price				
Shares - Fully Diluted		18.4		
Stock Price - Private Market Value of Assets		\$18.55		
Discount to Derive Public Market Value		20.0%		
Target Stock Price		\$14.84		
Current Share Price		\$11.00		
Upside to Target		34.9%		

Source: Bear, Steams and Co. Inc. estimates.



HEARST-ARGYLE TELEVISION (HATV-343/8)

Rating: Attractive



52-Week Range

\$38-\$26

EPS

12/97: \$0.98 12/98E: \$1.19 12/99E: \$1.36

P/E

12/98E: 28.9x 12/99E: 25.2x

BCF (mil)

12/97PF: \$175.7 12/98PFE: \$195.0 12/99PFE: \$215.8

EV/BCF

12/98PFE: 11.8x 12/99PFE: 10.7x

Dividend

Nil

<u>Yield</u>

Nil

Com. Shares (mil)

54.8

Equity Market Capitalization (mil)

\$1,884

Debt/EBITDA (1998E)

2.3x

Est. 3-Yr EPS Growth Rate

11.1%

Proving the Power of Scale

The August 1997 merger of The Hearst Corp.'s and Argyle Television's station groups created the largest publicly traded pure-play television broadcaster in the U.S., covering 10.9% of TV households via its owned and managed properties. In our view, the combined company, now called Hearst-Argyle, has the critical mass, geographic diversity, and attractive market mix necessary to become a dominant player in TV broadcasting and to deliver above-average broadcast cash flow growth for the next several years. Hearst-Argyle continues to overindex the ABC network in its markets, primarily driven by strong local news programming. The ratings and revenue growth at the company's largest properties (Boston, Baltimore, Pittsburgh, and Kansas City) continue to compare favorably with industry averages, despite the recent disappointments at the ABC network (Boston and Kansas City are ABC affiliates). Lastly, we expect the new company to be an aggressive consolidator in the broadcast television industry as it capitalizes on its low leverage and lower cost of capital (aided by the financial and marketing prowess of the Hearst Corporation).

- Still an Attractive Value. We believe Hearst-Argyle Television's current valuation offers some upside. Assuming an enterprise value of \$2.3 billion, HATV shares are trading at 11.8x our pro forma broadcast cash flow estimates for 1998. Given Hearst-Argyle's significant size, attractive markets, acquisition capacity, and top-flight management, we believe the stock should maintain a multiple above those of the company's peers. We derived our target by applying an 11.5x multiple against projected year-end 1999 BCF of \$215.8 million (\$2.48 billion) and subtracted projected year-end 1999 debt of nearly \$327.7 million. This valued the 54.8 million shares at \$39 per share, which is 14.4% higher than the May 21, 1998, closing price. In the long-term, we also expect this stock should do well as the company aggressively bids to consolidate the television business.
- The Power of Scale. When the two broadcasters combined their operations, we believe they significantly enhanced the resulting company's negotiating leverage for programming (access and price), improved negotiating power with the company's national rep (Katz and Blair) and research firms (Nielsen), and increased visibility with the broadcast networks, especially ABC. We think the combination of the companies should have a positive impact on access to capital based on sheer size and visibility in the financial community. Also,

Hearst Corporation's credibility should translate favorably into lower financing costs.

- Valuable Station Assets. The company's 12 owned and operated television properties reach 8.9% of all U.S. television households. Its owned and operated television stations have a cumulative signon/sign-off audience of nearly 550,000 viewers, on average. Including the television station properties the company manages in Tampa, Kansas City, and West Palm Beach, its television household reach increases to 10.9%, and its cumulative audience is roughly 585,000 viewers. Hearst-Argyle remains the largest pure-play television firm in the country under both of these measures. Of its total properties, nine are in the top 50 markets and all 12 are in the top 100 markets.
- Big Beneficiary of Any Improvement at ABC. As the third-largest ABC affiliate, whose owned and managed stations clear 7.6% of all U.S. TV households for the network, Hearst-Argyle stands to benefit greatly from any improvement at ABC, which would boost the broadcaster's ratings and profitability in prime time and late news. However, through 28 weeks of the 1997-1998 broadcast season, ABC is still suffering from ratings declines. We estimate that TV households and adult viewers aged 18-49 have declined approximately 7.6% and 7.7%, respectively, after two consecutive seasons of double-digit ratings declines.
- Top-Notch Management. The new company has retained many of the most talented and experienced managers from the former Argyle and Hearst Broadcasting operations, most notably the co-CEOs Bob Marbut (from Argyle Television) and John Conomikes (from Hearst Corporation); COO David Barrett (Hearst); and CFO Harry Hawks (Argyle). We are also encouraged that management has put millions of dollars of its own equity at risk through continued share ownership.
- Signs of Momentum. Hearst-Argyle's top three stations continue to post strong results. WCVB in Boston won the sweeps for the fourth consecutive time, enabling it to expand its share of local market advertising dollars. Another company-owned station, WBAL in Baltimore, recently achieved a major milestone in its history by placing first in the ratings for its 5:00 p.m., 6:00 p.m., and 11:00 p.m. slots. We look for local advertising growth to continue to accelerate at this station, thanks to its rise in status. Meanwhile, KMBC in Kansas City remains one of ABC's highest-performing stations nationally.
- A Run at Pulitzer Likely. We think that Hearst-Argyle is a strong contender in the bidding for Pulitzer's television properties, which, by our estimates, could sell for \$1.7-\$1.8 billion. The auction of the

Pulitzer properties is a unique opportunity in the television marketplace. Pulitzer's nine Big Three network affiliates, which include five in the top 50 markets, would be a feather in any broadcaster's cap. If successful, Hearst-Argyle's reach would jump to 14.4% of U.S. TV households with its owned and operated group. It would also manage two television stations, which would reach another 2% of U.S. television households. This would rank the company as the third-largest non-network-affiliated television operator. Combined, the Hearst-Argyle (including the two managed television properties) and Pulitzer properties would attract an average audience of nearly 940,000 television households throughout the day, making it the second-largest non-network-affiliated group by that measure.

Plenty of Acquisition Capacity. Hearst-Argyle has the lowest leverage of the publicly traded television companies, which we expect it to use to continue its aggressive acquisition spree. Year-end net debt approximated \$477.2 million in 1997, implying leverage of 2.8x 1997 pro forma operating cash flow of \$169.5 million. We believe that the company could absorb roughly \$1 billion worth of acquisitions without needing additional equity. If it pursued an acquisition that approached \$2 billion, we estimate that it would require about \$500 million in equity.

STRENGTHENING STRATEGIC POSITION

Recent Station Swap (Bigger Markets for Smaller) Makes Sense

On January 19, 1998, Hearst-Argyle Television announced that it would swap two television stations, a Fox affiliate in Providence, Rhode Island (47th-largest market), and an ABC affiliate in Dayton, Ohio (53rd-largest market), for two television stations from STC Broadcasting (an affiliate of Hicks, Muse), NBC affiliates in Burlington, Vermont/Plattsburgh, New York (91st-largest market), and Monterey/Salinas (122nd-largest market). In addition, Hearst-Argyle Television will pay \$20 million to STC Broadcasting as part of the swap by the end of second quarter. This swap was required to address the Federal Communications Commission's concerns that two of the company's properties would have significant Grade A signal overlaps (Dayton/Cincinnati and Providence/Boston).

While it is true that Hearst-Argyle is swapping two larger markets for smaller ones, thereby reducing the television household reach of its owned television properties by 0.5% (to 8.9% from 9.4%), we think the swap makes sense. Consider the following arguments.

- A swap makes more strategic sense than a sale of the stations.
- The transaction will be structured as a Section 1031 tax-deferred exchange of assets.
- The company's mix of network affiliations will become slightly more balanced by adding the two NBC stations.

- The Monterey/Salinas market is dominated by two VHF television properties, and Hearst-Argyle will now control the NBC affiliate, which captures approximately 40% of the market's local commercial viewing share. Although the market is 122nd in terms of the number of TV households, it is ranked 70th in revenues and ninth in household income. The economics of two-station markets can be quite attractive, in our view.
- The Burlington/Plattsburgh market is a two-television-station market as well, dominated by the new Hearst-Argyle Television property WPTZ-TV/WNNE-TV, which commands 41% of the local viewing audience, and the local CBS affiliate, which captures 49%.
- With dominant viewership shares in Monterey/Salinas and Burlington/Plattsburgh, as well as minimal local competition, these television properties should be able to generate BCF levels and margins that exceed those of the stations the company is swapping. By our estimates, the stations that Hearst-Argyle are jettisoning generate about \$30 million in revenue and \$10 million in BCF, implying BCF margins of 33%. The stations it will acquire in the swap produce roughly \$27 million in revenue and \$11.6 million in BCF, implying approximately 43% margins.

Going for the Pulitzer Prize — What If?

We believe that Hearst-Argyle and Chancellor Media (and the dark horse Gannett Co.) are finalists in the bidding for Pulitzer Publishing Co.'s television assets. Pulitzer announced two months ago that it intended to sell its television business. Pulitzer's station group is a very significant asset and would be a great addition to any broadcaster's portfolio. Pulitzer operates five NBC affiliates in Orlando (22nd-largest market); Greenville, South Carolina (35th); New Orleans (41st); Harrisburg, Pennsylvania (45th); and Greensboro, North Carolina (46th); two CBS affiliates in Louisville (50th) and Des Moines (69th); and two ABC affiliates in Albuquerque (48th) and Omaha (74th) and radio properties in Phoenix. Its nine-station group reaches 5.53% of all U.S. television households. Should Hearst-Argyle prevail, we believe that the addition of the TV assets would be an important strategic victory for a number of reasons.

The Acquisition Would Create One of the Largest TV Groups in the Country. The combination of the Hearst-Argyle and Pulitzer television properties would create one of the largest television groups in the country. The company would own 21 network-affiliated television stations and manage three other TV properties on behalf of the Hearst Corporation. The combined television group, including managed stations, would reach approximately 16.5% of all U.S. TV households, making Hearst-Argyle the largest non-network-affiliated television group in the U.S. and the ninth-largest TV group in terms of household clearance (after eliminating ethnic and emerging networks). Including the LMA station the company manages in Kansas City, the company clears 17.3% of households. The combined television station group would deliver nearly 900,000 viewers, on average, from sign-on to sign-off, making it the eighth-largest television group in the country (and third-largest non-network

group). By this measure, this would dramatically increase Hearst-Argyle's leverage relative to 1) local market competitors, 2) program syndicators, 3) vendors (research and rep firms), and 4) broadcast networks.

- The Acquisition Would Create Better Affiliation Balance. Currently, Hearst-Argyle is extremely reliant on the ABC network, which accounts for nearly 61% of its affiliation balance (7.13% of TV households) of its owned and managed television properties. Pulitzer, on the other hand, would complement Hearst-Argyle, as 65% of its distribution (3.62% of TV households) is associated with the NBC network. Combined, we estimate that Hearst-Argyle distribution would become much more balanced with 46%, 6%, 34%, 9%, and 5% of households associated with the ABC, CBS, NBC, WB, and UPN networks, respectively. We believe that affiliation balance is crucial, as it 1) helps absorb the ebb and flow of broadcast network ratings and 2) reduces the impact of major programming losses (NBC and AFL football, for example).
- Acquisition Would Improve Position Relative to ABC and NBC Networks. We surmise that the relationships between broadcast networks and their affiliate bases will become more complex. We think it is important for broadcast groups to have a significant position relative to the broadcast networks so they can be a part of the decision-making process at the networks. If Hearst-Argyle acquires Pulitzer's television assets, it will become the largest ABC affiliate group and the second-largest NBC network affiliate group in the United States.
- Acquisition Would Not Require Divestitures. We do not think that the acquisition of Pulitzer would pose any market or signal overlap problems that would force divestitures of assets or would make a transaction more complex.
- Groups of Pulitzer's Size Rarely Become Available; Hearst-Argyle Wants to Reach 20% of TV Households. Hearst-Argyle is committed to increasing its reach to 20% of all U.S. television households. Assets of the significance of Pulitzer's nine Big Three network affiliates, which clear 5.5% of all U.S. TV households, rarely become available. On its own, Pulitzer is the 20th-largest broadcaster in terms of daily audience. If Hearst-Argyle purchases Pulitzer's television assets, its reach will increase to 16.5% of all U.S. households.

We believe that the acquisition of Pulitzer would make good strategic sense. The only question from a strategic standpoint is whether the loss of "Seinfeld" and NFL/AFC football will affect the relative health of Pulitzer's five NBC affiliates. From a financial return standpoint, the ultimate payoff period may take a bit longer if the price ultimately is full. We believe the winner of this bidding process will pay a very significant price for these assets. Whether the purchase makes accretive contributions to the company immediately is unknown at this time. In our view, Hearst-Argyle will have one advantage that may help it earn the types of returns it requires: its relationship with Hearst Corp., which should have a positive impact on the company's financing costs for a potential deal.

We think Hearst-Argyle has a good chance of prevailing in this contest. Given the combined company's low leverage and the financial might of the Hearst Corporation,

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Hearst-Argyle has been able to raise long-term money at extremely attractive rates. Its present capital structure includes a ten-year, \$200 million 7.0% note; a 20-year, \$200 million 7.0% note; and a 30-year, \$100 million 7.5% note. In fact, we would argue that the company, with Hearst Corporation's leverage, will probably be able to borrow funds at rates lower than if the company were a pure-play media company. This may provide it with cost of capital and investment-return advantages that could prove useful in tipping the scales should it find itself in a bidding war.

Monday Night Football:

Touchdown, Field Goal, or First Down?

As one of the largest ABC affiliate groups, Hearst-Argyle has a distinct interest in the discussions that are occurring with the ABC network concerning the NFL. Rights fees for "Monday Night Football" increased to approximately \$550 million for ABC for the next eight years (at least five, with the NFL's option to renew). In order to defray some potential losses at the network, ABC is likely to ask for cash, inventory, or both, from its affiliated stations. However, we believe that the negotiations are going to be particularly hard for the network. We think that the NFL is likely to be a "field goal" for ABC affiliates (a score, but not a big one). We doubt that the ABC affiliates will have to provide cash, and they will likely be reluctant to give the network inventory.

If the affiliates do provide inventory, certain groups may do well. The NFL is permitting ABC to move the game to 8 p.m. from 9 p.m. The network will extend the pregame show to 20 minutes from approximately seven, which will provide more advertising opportunities for the ABC network. However, with the game ending 47 minutes earlier (starting one hour earlier, less 13 minute longer pregame show), operators with a preponderance of stations on the East Coast will be able to run their late news nearly one hour earlier to much-higher viewership levels (read: revenues).

Another potential benefit to the local affiliates would be trading NFL inventory for program exclusivity, For example, the stations could press ABC to run network programming only on the local affiliate base and to not distribute this programming to cable outlets. The affiliated stations could also enter into revenue-sharing agreements in exchange for program exclusivity. For example, if the ABC network (and ESPN, for that matter) planned to significantly increase the advertising rate card during NFL programming, the local affiliated stations should be able to do the same. If the stations are successful at raising rates, perhaps the local affiliate can pass a percentage of the increase back to the networks. At the end of the day, we believe that the NFL issue may be a slight positive for the affiliates, but hardly a big win.

FIRST-QUARTER SNAPSHOT

In the first quarter of 1998, Hearst-Argyle Television was able to generate pro forma revenues of \$87.3, up 7.3% from last year's \$81.3 million. These strong top-line numbers were impressive given the company's shortage of CBS affiliates and lack of participation in Olympic revenues. The company effectively replaced Olympic dollars via an effective local sales effort that drew on the strength of its local television franchises. Another significant potential hurdle to top-line growth is the lagging performance of the ABC network. After two broadcast seasons of negative double-digit TV household ratings growth, ABC has posted negative household

ratings growth in the high-single-digit area for the first 22 weeks of the 1997-98 broadcast season. However, the strength of local TV station franchises can overcome network influences to some extent. For example, the company dramatically overindexes the ABC network in prime time in several key demographics in its markets, including Boston (110% of ABC prime-time ratings), Pittsburgh (140%), Kansas City (125%), and Milwaukee (129%). Overindexing can significantly mitigate the negative viewership trends of the network. With these strong franchises, the company was able to experience solid local advertising growth despite modest national advertising growth. Having this level of top-line growth at the stations despite a lack of Olympic dollars and despite ABC's lackluster results is a strong testimonial to the strength of Hearst-Argyle's local franchises and the effectiveness of its local station and sales management.

Pro forma broadcast cash flow increased by 13.3% in the first quarter of 1998, to \$33.7 million. This performance resulted from solid revenue growth and cost containment in the operations and programming of the station group. Overall, we estimate that pro forma operating expenses grew 4.0%, to \$42.4 million in the first quarter of 1998. Programming expenses probably rose at a slower pace of roughly 3.5%, to \$11.1 million, in the period. The company's pro forma revenues, expenses, and BCF do not reflect the swap of the Dayton and Providence television properties for STC Broadcasting stations in Salinas/Monterey and Burlington/Plattsburgh. We expect that once these stations are added, the growth in costs, especially in programming, could slow from levels reported in the first quarter of 1998.

FINANCIAL OUTLOOK

Hearst-Argyle's pro forma revenues for the entire year grew 4.7%, to \$387.8 million in 1997 from \$370.2 million in 1996. Adjusting for political dollars of approximately \$18 million earned for the entire year of 1996, growth would have approached 10.0%. Pro forma BCF in 1997 climbed 7.5%, to \$175.8 million from \$160.0 million in 1996. Full-year operating expenses increased 4.6%, to \$168.4 million in 1997 from \$161.1 million, which was basically in line with top-line growth. BCF growth was propelled by an 11.6% (or \$5.7 million) decrease in programming payments. This helped drive BCF margins to 45.3% versus 43.2%.

This momentum has carried into 1998. What makes this growth remarkable is that the company did not derive any benefits from the 1998 Winter Olympics because it does not have any CBS affiliates. For 1998 as a whole, we believe that the company's revenues can grow by approximately 6%-7%, propelled mainly by increased political spending. In 1996, Hearst-Argyle recorded around \$18.0 million in political spending, and management believes it can deliver 67%-75% of this level in 1998, or in the \$12-\$14 million range.

We look for pro forma BCF to gain 11% in 1998, to \$195.0 million from \$175.7 million in 1997. This performance will likely be fueled by a modest pickup in national advertising, stronger local advertising (thanks to an anticipated increase in political advertising), and good cost control. Film payments, which decreased 11.6%, to \$43.5 million from \$49.2 million in 1997, should remain at this level of run rate in 1998, 1999, and 2000. Nonfilm expenses, which reached \$168.4 million on a pro forma basis last year, are expected to grow approximately 2.5% in 1998.

Balance Sheet

The company issued 2.7 million "adjustment" shares to the Hearst Corporation in the fourth quarter of 1997, a much higher level than we had anticipated (we projected 800,000 shares). We believe this incremental \$64.6 million in value represents the higher working capital contributed by Hearst to the company in an amount equal to \$25 million, as well as an overfunding of Hearst-Argyle pensions of approximately \$35 million. This \$25 million in incremental working capital translated into cash in the first quarter of 1998 and was used to reduce debt. We forecast that Hearst-Argyle should have debt of \$500 million at year-end 1998.

During late 1997, Hearst-Argyle completed an offering of four million shares, at an offering price of \$27 per share, and \$300 million of ten-year senior notes and 30-year debentures. The new-issue equity increased the company's float by approximately 50%. With the addition of the 53.8 million shares, market capitalization approaches \$1.9 billion. Adding in year-end 1998 pro forma net debt of an estimated \$418 million yields an enterprise value of \$2.3 billion.

Exhibit 63. Television Properties — Hearst-Argyle Television

					1996 In-Market Viewership	1996 Gross Market Revenues	1996 Station Ad Revenues	Revenue	
Market	Market Rank	Station	Affiliation	Channel Frequency	Share(1) (%)	(\$ MM)	(\$ MM)	Share	Overseli(2)
Boston	6	MCAB .	ABC	5/VHF	23	\$506	\$119	23	1.0
Pittsburgh	19	WTAE	ABC	4/VHF	27	\$204	\$ 55	27	1.0
Baltimore	23	WBAL	NBC	11/VHF	31	\$ 186	\$5 0	27	0.9
Cincinnati	30	WLWT	NBC	5/VHF	27	\$152	\$36	24	0.9
Milwaukee	32	WISN	ABC	12/VHF	21	\$145	\$38	26	1.3
Kansas City, MO	31	KMBC	ABC	9/VHF	27	\$150	\$47	31	1.2
Oklahoma City	44	KOCO	ABC	5/VHF	22	\$96	\$23	23	1.1
Honolulu	71	KITV	ABC	13/VHF	0	\$65	\$0	0	NA
Jackson, MS	90	WAPT	ABC	16/UHF	18	\$39	\$ 5	14	8.0
Burlington/Plattsburgh/(Hartford, VT)	91	WNNE	NBC	31/UHF	9	\$36	\$ 3	8	0.8
Fayetteville, AK (Ft. Smith)	116	KHOG	ABC	29/UHF	0	\$24	\$ 0	0	NA
Monterey-(Salinas), CA	121	KSBW	NBC	8/VHF	40	\$52	\$12	24	0.6
(1) In-Market Viewership Share equals a television station	s viewership share divided	by total of wewership	shares for all commercial t	elevision stations.					

Source: BIA Investing in Television '97; Nielsen Media Research; Bear, Steams & Co. Inc. estimates.

Exhibit 64. Television Properties Managed by Hearst-Argyle

					1996 in-Market Viewership	1996 Gross Market Revenues	1995 Station Ad Revenues	Revenue	
Market	Market Rank	Station	Affiliation	Channel Frequency			(S MM)	Share	Oversell(2)
Kansas City	31	KCWB	WB	29/UHF	0	\$150	\$0	0	NA
Tampa	15	WWWB	WB	32/UHF	3	\$238	\$4	2	0.6
West Palm Beach	43	WP8F	ABC	25/UHF	16	\$102	\$15	15	0.9

Source: Television properties managed by Hearst-Argyle.

Exhibit 65. Hearst-Argyle	Television Combined Ope	erating (Cash Flow	and inco	ome State	ement -	- Quarterly	/ 1997E a	nd 1998E
EXIII	1097	2097	3097	4Q97	1997	1Q98	2Q98E	3Q98E	4Q98E

Exhibit 65. Hearder 11 gy 15 15 15 16 16 16 16 16 16 16 16 16 16 16 16 16		viuming v		4114 111	JUII.U UIL	COMMENT	Guarter.	199/10	IIIU 1330E	
	1Q97	2Q97	3Q97	4Q97	1997	1Q96	2Q98E	3Q98E	4Q98E	1998
Net Broadcasting Revenues	\$17.9	\$21.9	\$46.1	\$112.4	\$198.3	\$87.3	\$108.3	\$96.3	\$119.7	\$411.5
Net Broadcasting Time Broadcasting Expenses	(\$10.8)	(\$10.6)	(\$21.1)	(\$45.2)	(\$87.6)	(\$42.4)	(\$42.0)	(\$43.2)	(\$44.9)	(\$172.5)
	(\$1.2)	(\$1.1)	(\$4.7)	(\$10.9)	(\$17.9)	(\$11.1)	(\$11.1)	(\$11.1)	(\$11.1)	(\$44.4)
Broadcast Cash Flow	\$5.9	\$10.2	\$20.4	\$56.3	\$92.7	\$33.7	\$55.2	\$42.0	\$63.8	\$194.6
· Omthead	(\$1.0)	(\$0.9)	(\$1.3)	(\$3.0)	(\$6.2)	(\$3.4)	(\$3.0)	(#2.0)	(C) (1)	/£10.4
Corporate Overhead Operating Cash Flow (EBITDA)	\$4.9	\$9.3	\$19.1	\$53.3	\$86.5	\$30.3	\$52.2	(\$3.0) \$39.0	(\$3.0) \$60.8	(\$12.4 \$182.1
Operating Capting							+34.4	439.0	0.006	\$102.1
Plus: Film Payments (Cash Flow Basis)	\$1.2	\$1.1	\$4.7	\$10.9	\$17.9	\$11.1	\$11.1	\$11.1	\$11.1	\$44.4
Amort Program Contracts (Inc. Statement Basis)	(\$1.1)	(\$1.1)	(\$4.4)	(\$10.9)	(\$17.5)	(\$10.8)	(\$10.8)	(\$10.8)	(\$10.8)	(\$43.1
nan and Amori, Flou, arid Edulb.	(\$6.6)	(\$6.2)	(\$7.1)	(\$9.2)	(\$29.1)	(\$8.8)	(\$9.0)	(\$9.0)	(\$9.0)	(\$35.8
Amort of Intand Non-Compete and Consumno	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$1.3)	(\$1.3)	(\$1.3)	(\$3.8
Non-Cash Compensation (Com. Stock)	(\$0.3)	(\$0.2)	(\$3.0)	\$0. 0	(\$3.5)	\$0.0	\$0.0	\$0.0	\$0.0	\$0,0
Operating Income	(\$1.8)	\$2.9	\$9.2	\$44.1	\$54.3	\$21.7	\$42.3	\$29.1	\$50.9	\$143.9
Other Income and Expense										
Interest Expense	(\$4.4)	(\$5.0)	(\$7.2)	(\$12.0)	(\$28.6)	(\$11.0)	(\$9.0)	(\$9.0)	(\$9.0)	(\$38.0
Other Income (Expense)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Pretax Income before Unusual Items	(\$6.2)	(\$2.1)	\$2.0	\$32.1	\$25.8	\$10.8	\$33.3	\$20.1	\$41.9	\$106.0
				i			\$00.0	\$20. 1	J-1.3	\$100.0
Taxes - Federal and State	\$0.0	\$0.0	(\$3.4)	(\$13.0)	(\$16.4)	(\$4.9)	(\$13.6)	(\$8.2)	(\$17.2)	(\$43.4
Income (Loss) before Extraordinary Items, Net of Tax	(\$6.2)	(\$2.1)	(\$1.5)	\$19.1	\$9.3	\$5.8	\$19.6	\$11.8	\$24.7	\$62.5
extraordinary Items]	1					
Extraordinary Loss on Exting. Debt	\$0.0	\$0.0	\$0.0	(\$16.2)	(\$16.2)	(\$10.0)	\$0.0	\$0.0	\$0.0	(\$10.0
Sale of Television Property, Net of Taxes	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cum. Effect of Change in Accting Principle	\$0.0	\$0.0	\$0.0	\$0,0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income (Loss)	(\$6.2)	(\$2.1)	(\$1.5)	\$2.9	(\$6.9)	(\$4.1)	\$19.6	\$11.8	\$24.7	\$52.6
	, ,				,,	\	•	•		402.0
Preferred Dividend	(\$0.4)	(\$0.4)	(\$0,4)	(\$0.4)	(\$1.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$0.4)	(\$1.4
Net Income (Loss) to Common Shareholders	(\$6.6)	(\$2.4)	(\$1.8)	\$2.5	(\$8.3)	(\$4.5)	\$19.3	\$11.5	\$24.4	\$51.1
n. station										
Statistics										
Margins (Percent of Net Revenues)	<u>1097</u>	<u>2Q97</u>	<u>3097</u>	4Q97	1997	<u>1Q98</u>	2098E	3Q98E	4Q98E	1998
Operating Expenses and SGA	60.3%	48.4%	45.6%	40.2%	44.2%	48.6%	38.8%	44.9%	37.5%	41.99
Film Payments	6.7%	5.1%	10.2%	9.7%	9.0%	12.7%	10.3%	11.5%	9.3%	10.89
Broadcast Cash Flow	33.0%	46.6%	44.2%	50.1%	46.8%	38.6%	51.0%	43.6%	53.3%	47.39
Corporate Overhead	5.6%	4.1%	2.9%	2.7%	3.1%	3.9%	2.8%	3.1%	2.5%	3.09
Operating Cash Flow	27.4%	42.5%	41.3%	47.4%	43.6%	34.7%	48.2%	40.5%	50.8%	44.39
Growth Rates										
Net Revenue	15.4%	17.9%	164.6%	415.5%	170.5%	388.0%	394.8%	108.7%	6.5%	6.19
Cash Operating Expenses	21.2%	11.7%	129.6%	347.5%	132.7%	293.7%	296.8%	105.2%	-0.7%	2.49
Film Payments	50.3%	-6.6%	440.4%	1096.9%	376.0%	828.5%	901.2%	137.0%	1.6%	2.15
Broadcast Cash Flow	1.7%	29.0%	175.6%	421.5%	190.8%	471.0%	441.4%	105.7%	13.3%	10.79
Operating Cash Flow	1.6%	32.5%	230.7%	432.4%	213.5%	518.4%	461.3%	104.4%	14.0%	10.55
· •					Į			-		
Shares/Per Share										
Average Outstanding Shares for EPS Calculation	11.3	11.3	22.9	49.3	23.9	53.8	53.8	53.8	53.8	53.
PS (Average Shares) - Before Extraordinary Items	(\$0.55)	(\$0.18)	(\$0.06)	\$0.39	\$0.39	\$0.11	\$0.36	\$0.22	\$0.46	\$1.16
PS (Average Shares) - After Extraordinary Items	(\$0.55)	(\$0.18)	(\$0.06)	\$0.06	(\$0.29)	(\$0.08)	\$0.36	\$0.22	\$0.46	\$0.96
PS (Average Shares) - Applicable to Common	(\$0.58)	(\$0.22)	(\$0.08)	\$0.05	(\$0.35)	(\$0.08)	\$0.36	\$0.21	\$0.45	\$0.95
ro forma ⁽¹⁾										
devenue	\$81.3	\$104.0	\$90.1	\$112.4	\$387.8	\$87.3	\$108.3	\$96.3	\$119.7	\$411.5
Proadcast Cash Flow	\$29.8	\$52.3			\$175.7		\$55.2			
	323. 0	⊉ 0∠.3	\$37.1	\$56.5	31/3./	\$33.7	3 33.∠	\$42.0	\$63.8	\$194.6
Growth Rates										
Revenue						7.3%	4.1%	6.9%	6.5%	6.19
roadcast Cash Flow						13.0%	5.5%	13.1%	12.9%	10.79
targins										
roadcast Cash Flow	36.7%	50.3%	41.2%	50.3%	45.3%	38.6%	51.0%	43.6%	53.3%	47.3
I-A										

Note

(1) Pro forma 1998 quarterly estimates do not reflect station swap.

Source: Company reports; Bear, Stearns & Co. Inc. estimates.

Exhibit 66. Hearst-Argyle Television Combined Operating Cash Flow and Income Statement — 1996-99E

Exhibit ou. Hearst-Argyle relevision combined operating	1996	1997	1998E	1999E
Net Broadcasting Revenues	\$73.3	\$198.3	\$411.5	\$437.6
Total Cash Operating Expenses	(\$37.6)	(\$87.6)	(\$172.5)	(\$177.2
Film Payments	(\$3.8)	(\$17.9)	(\$44.4)	(\$44.5
Broadcast Cash Flow	\$31.9	\$92.7	\$194.6	\$215.8
Corporate Overhead	(\$4.3)	(\$6.2)	(\$12.4)	(\$13.1
Operating Cash Flow (EBITDA)	\$27.6	\$86.5	\$182.1	\$202.8
Plus: Film Payments (Cash Flow Basis) Less: Amort. Program Contracts (Inc. Statement Basis)	\$3.8 (\$4.7)	\$17.9 (\$17.5)	\$44.4 (\$43.1)	\$44.5 (\$44.5
Less: Dep. and Amort. Prop. and Equip.	(\$4.7) (\$24.0)	(\$29.1)	(\$35.8)	(\$36.0
Less: Amort. of Intang., Non-Compete and Consulting	\$0.0	\$0.0	(\$3.8)	(\$36.0 (\$5.0
Less: Non-Cash Compensation (Com. Stock)	(\$0.7)	(\$3.5)	\$0.0	\$0.0
Operating Income	\$2.0	\$54.3	\$143.9	\$161.8
Other Income and Expense				
Interest Expense	(\$16.6)	(\$28.6)	(\$38.0)	(\$35.9
Other Income (Expense)	\$0.0	\$0.0	\$0.0	\$0.0
Pretax Income before Unusual Items	(\$14.6)	\$25.8	\$106.0	\$125.9
Taxes - Federal and State	\$0.0	(\$16.4)	(\$43.4)	(\$51.6
Income (Loss) before Extraordinary Items, Net of Tax	(\$14.6)	\$9.3	\$62.5	\$74.3
•	(\$14.5)	\$5.5	Q02.0	Ψ/ 4.0
Extraordinary Items Extraordinary Loss on Exting. Debt	\$0.0	(616.0)	(610.0)	6 0.6
		(\$16.2)	(\$10.0)	\$0.0
Cum. Effect of Change in Accting Principle Net Income (Loss)	<u>\$0.0</u> (\$14.6)	<u>\$0.0</u> (\$6.9)	<u>\$0.0</u> \$52.6	<u>\$0.0</u> \$74.3
713. III33/113 (2005)	(0.1.5)	(\$6.6)	402.0	V , 1.0
Preferred Dividend	(\$0.8)	(\$1.4)	(\$1.4)	(\$1.4
Net Income (Loss) to Common Shareholders	(\$15.4)	(\$8.3)	\$51.1	\$72.9
<u>Statistics</u>				
Margins (Percent of Net Revenues)	1996A	1997A	1998E	1999
Operating Expenses and SGA	51.4%	44.2%	41.9%	40.59
Film Payments	5.1%	9.0%	10.8%	10.29
Broadcast Cash Flow	43.5%	46.8%	47.3%	49.39
Corporate Overhead	5.8%	3.1%	3.0%	3.0
Operating Cash Flow	37.7%	43.6%	44.3%	46.3
Growth Rates				
Net Revenue	56.1%	170.5%	6.1%	6.39
Cash Operating Expenses	59.5%	132.7%	2.4%	2.7
Film Payments	29.8%	376.0%	2.1%	0.39
Broadcast Cash Flow	56.0%	190.8%	10.7%	10.99
Operating Cash Flow	52.4%	213.5%	10.5%	11.3
Shares/Per Share				
Average Outstanding Shares for EPS Calculation	11.2	23.9	53.8	53.
EPS (Average Shares) - Before Extraordinary Items	(\$1.29)	\$0.39	\$1.16	\$1.38
EPS (Average Shares) - After Extraordinary Items	(\$1.29)	(\$0.29)	\$0.98	\$1.38
EPS (Average Shares) - Applicable to Common	(\$1.37)	(\$0.35)	\$0.95	\$1.35
		!		
Pro forma		<u>1997</u>	1998	199
Net Revenues		\$387.8	\$412.9	\$437.6
Broadcast Cash Flow		\$175.7	\$195.0	\$215.8
Growth Rates				
Net Revenue			6.5%	6.09
Broadcast Cash Flow			11.0%	10.79
<u>Margins</u> Broadcast Cash Flow		45.3%	47.2%	40.20
Source: Company reports; Bear, Stearns & Co. Inc. estimates.		45.3%	41.2%	49.39

Syhibit 67. Hearst-Argyle	Television Cash Flow	Statement — 1997-99E

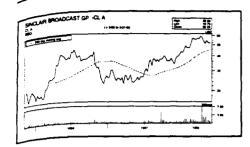
Exhibit 07. Hearst Algyre relevision obstriction of the control of	1997	1998E	1999E
Income Statement Flows			
Operating Cash Flow	\$86.5	\$182.1	\$202.8
Plus/(Minus) Other Income	\$0.0	\$0.0	\$0.0
Plus: Non-cash Compensation	\$0.0	\$0.0	\$0.0
Less: Interest Paid	(\$28.6)	(\$38.0)	(\$35.9)
Less: Taxes Paid	(\$16.4)	(\$43.4)	(\$51.6)
Less: Dividends paid on preferred stock	(\$1.4)	\$0.0	\$0.0
After-Tax Free Cash Flow	\$41.5	\$100.7	\$115.3
Balance Sheet Flows - Maintenance			
Working Investment	(\$10.8)	(\$3.0)	(\$3.0)
Capital Expenditures - Maintenance	(\$5.5)	(\$7.0)	(\$7.0)
Capital Expenditures - Digital (HDTV/DTV)	(\$4.3)	(\$10.0)	(\$15.0)
Capital Expenditures - Special projects/buildings	<u>(\$20.6)</u>	<u>(\$13.5)</u>	(\$6.5)
Balance Sheet Flows - Maintenance	(\$41.3)	(\$20.0)	(\$25.0)
Free Cash Flow from Core Operations	\$0.3	\$80.8	\$90.3
Acquisition/Sale of Television Properties			
Purchase of Television Property	(\$23.0)	(\$20.0)	\$0.0
Cash Paid in Merger	(\$110.1)	\$0.0	\$0.0
Acquisition costs	<u>(\$1.9)</u>	<u>\$0.0</u>	<u>\$0.0</u>
Acquisition/Sale of Television Properties	(\$135.0)	(\$20.0)	\$0.0
Financing Activities			
Proceeds from issuance of long-term-debt	\$0.0	\$0.0	\$0.0
Cash Contributed	\$0.0	\$0.0	\$0.0
New Public Equity Raised	\$108.9	\$0.0	\$0.0
Refinance Private Placement Debt	(\$295.9)	\$ 0.0	\$0.0
Issuance of Senior Notes	\$300.0	\$200.0	\$0.0
Refinance Bridge Debt	\$0.0	\$0.0	\$0.0
Refinance/Mandatory Amortization of Debt	\$64.0	(\$85.0)	\$0.0
Repayment of Senior Sub Notes	(\$49.4)	(\$104.0)	\$0.0
Financing Costs & Other	(\$26.1)	\$0.0	\$0.0
Other	<u>\$19.2</u>	<u>\$0.0</u>	<u>\$0.0</u>
Financing Activities	\$120.7	\$11.0	\$0.0
Net Increase/(Decrease) in Cash	(\$14.0)	\$71.8	\$90.3
Statistics:			
Free Cash Flow per Average Share	.	A	** **
FCF from Operations per Share	\$0.01	\$1.50	\$1.68
Net Debt	•	A. . .	A 1 - 1 A
Cash - Year End	\$12.8	\$84.5	\$174.8
Projected Debt - Year End	\$490.0	\$502.5	\$502.5
Projected Net Debt - Year End	\$477.2	\$418.0	\$327.7
Leverage Pro forms OCE	¢160 E	\$190 G	\$202.8
Pro forma OCF	\$169.5	\$182.6 2.3	ֆ∠∪∠.δ 1.6
Total Leverage - Net Debt - Pro forma OCF Source: Company reports; Bear, Steams & Co. Inc. estimates.	2.8	۷.۵	1.0

Exhibit 68. Hearst-Argyle Television Valuation Using Discounted Cash Flow Analysis

		1999E	2000E	2001E
Cash Flows for Valuation Purposes				
Pretax Income		\$125.9	\$152.5	\$168.9
Plus: Interest Expense		\$35.9	\$35.9	\$35.9
Unlevered Pretax Income		\$161.8	\$188.3	\$204.7
Taxes at Rate of	40.0%	(\$64.7)	(\$75.3)	<u>(\$81.9)</u>
Unlevered Net Income		\$97.1	\$113.0	\$122.8
Non-Cash Expenses		\$85.5	\$85.6	\$85.6
Film Payments		(\$44.5)	(\$44.6)	(\$44.6)
Working Capital Investment		(\$3.0)	(\$3.0)	(\$3.0)
Capital Expenditures		(\$7.0)	(\$7.0)	(\$7.0)
Unlevered Free Cash Flows from Operations (FCF)		\$128.1	\$144.0	\$153.8
Terminal Value of FCF Assuming Perpetual Growth Rate of	6.0%			\$3,261.5
Free Cash Flows for Valuation Purposes		\$128.1	\$144.0	\$3,415.4
Equity Value				
Enterprise Value (NPV) Using Discount Rate of	11.0%	\$3,029.8		
Debt Outstanding - End of Year 1998		(\$418.0)		
Preferred Stock		(\$21.9)		
Cash - End of Year 1998		\$84.5		
Option Proceeds		\$0.0		
Equity Value		\$2,674.5		
Share Price				
Shares - Fully Diluted		54.8		
Private Market Value		\$48.80		
Discount Applied to PMV		20.0%		
Target Stock Price		\$39.04		
Current Share Price		\$34.38		
Upside to Target		13.6%		

Source: Company reports; Bear, Stearns & Co. Inc. estimates.

Rating: Attractive



52-Week Range

\$62-\$24

EPS

12/97: (\$0.20) 12/98P: \$0.21

12/99P: \$1.32

P/E

12/98E: NM

12/99E: NM

BCF (mil)

12/97PF: \$401.0

12/98PFE: \$425.0

12/99PFE: \$456.2

EV/BCF

12/98PFE: 12.3x

12/99PFE: 11.5x

Dividend

Nil

<u>Yield</u> Nil

Com. Shares (mil)

48.4

Equity Market Capitalization (mil)

\$2,530

Debt/EBITDA (1998E)

6.2x

Est. 3-Yr BCF Growth Rate

11.1%

Strong Distribution, Diversity, and a Vision for the Future of TV

We think the Sinclair Broadcast Group best exemplifies the kind of broadcaster that can dominate and flourish in the broadcast television business of the future — even as the competitive climate turns more hostile. The company has been crystal clear about its long-term strategic plan: Be in as many markets as possible, own radio and television stations in the same market if possible, and try to have programming purchase power and sell advertising for two television stations in as many markets as possible.

As it continues to successfully execute its strategy, we believe that Sinclair's growth prospects are as strong as ever. No other single broadcast television operator owns more television properties (57). Moreover, Sinclair is the largest non-network-affiliated group owner in terms of TV household reach (23% of U.S. television households), and nearly 750,000 TV households are watching Sinclair's owned and managed television stations, on average, throughout the day. The company operates radio and television properties in seven markets and also runs more television properties through local marketing agreements than any other broadcaster. The diversification of its cash flow sources by property and geographic market is remarkable; no property accounts for more than 6% of cash flow. Finally, we expect Sinclair to remain one of the most acquisitive television groups in the country. Longer term, we look for the company to be a leader in developing and creating viable economic models for digital television.

- Stock's Premium Valuation Well Justified. Based on a total capitalization of roughly \$5.2 billion (equity value of \$2.5 billion, debt of \$2.5 billion, and about \$0.17 million in preferred stock), SBGI shares are currently trading at a multiple of 12.3x our 1998 BCF estimate of \$425 million and 11.5x our 1999 BCF projection of \$456 (both pro forma) or at a slight premium to the valuations accorded its peers. Given the company's superior positioning within the industry and its excellent asset balance, we think the stock deserves to trade at a premium. Hence, our 12-month price target for the stock is \$65, based on a multiple of 12.5x our 1999 BCF estimate.
- Largest Non-Network-Affiliated TV Group in the Nation. Sinclair's 37 owned and operated stations reach nearly 22.5% of all U.S. television households, making it the sixth-largest television broadcaster based on this measure (excluding ethnic, home shopping, and network start-ups). The company owns and manages

more television broadcast properties than any other broadcaster. In all, we estimate that roughly 609,000 viewers watch the company's owned and operated television stations during one day. Including stations in which the company has entered into local marketing agreements, this audience measure rises to an estimated 750,000 average viewers — which would make Sinclair the eighth-largest broadcaster in the U.S. by this measure (up from 15th in October 1997).

- Ambitious Expansion Plans in "Ignored" Middle Markets. The company would ultimately like to own and/or manage 100 television properties in the middle to smaller markets of the United States. These middle markets (14th to 75th, ranked in terms of television households) are characterized by 1) fewer absolute media competitors (distinct newspaper, radio, television, and outdoor competitors); 2) fewer competitive television properties; and 3) less sophisticated competition (Disney/ABC. CBS. General Electric/NBC, News Corp./Fox, Tribune/WB, and Viacom/Chris-Craft/UPN tend to concentrate on the largest television markets). By focusing on medium-sized communities, Sinclair believes that it can more effectively control its own destiny. By acquiring the Heritage Media, Max Media, Sullivan, Kansas City, and Las Vegas stations in 1997 and 1998, Sinclair clearly has become the industry's most aggressive consolidator. The acquisition of these properties added more television properties, more radio properties, more local marketing agreements, new markets, and more cash flow diversity for the company. Sinclair is well on its way to becoming one of the most formidable players in the broadcast television business, which helps differentiate the company from its peers.
- Dual-Media Presence (Radio and Television) in Seven Markets. Sinclair has always expressed an interest in expanding the number of markets in which it operates both radio and television properties. Driven primarily through acquisitions of radio properties as part of the River City Broadcasting and Heritage Media transactions, the company has achieved this goal in seven of its markets St. Louis (where it has approximately 21% of the radio dollars in the market); Kansas City (24%); Milwaukee (8%); Norfolk, Virginia (41%); Greenville (22%); and, with the Sullivan purchase, Greensboro (20%) and Buffalo (38%). As we outlined in our industry overview, we believe that owning radio and television offers cross-marketing and economies-of-scale advantages that can considerably enhance a broadcaster's competitive status.
- Impressive Asset Balance. With 57 owned or managed television properties and 56 radio properties, Sinclair's asset portfolio is extremely well balanced. No property accounts for more than 6% of the company's cash flow, and the radio operations and television local marketing agreements each account for an estimated 13%-15%

of total pro forma BCF of the company. The company also enjoys a good balance in its affiliation mix (six ABC, one CBS, three NBC, 23 Fox, 11 WB, seven UPN, and four independent stations, as well as two satellite stations) and geographic coverage. Sinclair's distribution is particularly meaningful to Fox (company's stations account for more than 12% of Fox's distribution), WB (for which it accounts for 7.7% of all TV households), ABC (4.1%) and UPN (3.2%).

- Big Bets on WB and Fox. Obviously, Sinclair's ability to turn distribution into cash was an essential element of the conversion of many UPN affiliates to WB affiliates beginning in the first quarter of 1998. In 1997, WB agreed to pay Sinclair \$84 million to clear its network in approximately 4.2% of U.S. TV households. As the largest Fox affiliate group in the U.S., Sinclair will probably disproportionately share in any joint venture deals done with Fox. In addition to positive economic relationships, Fox and WB are among the standout networks in terms of growth and "demographic efficiency." During the first 28 weeks of the 1997-1998 broadcast season (through April 5, 1998), WB's household and adult 18-49 measures have grown 19.9% and 25.6%, respectively, the fastest of all networks. Fox's demographic mix is extremely attractive; despite delivering only 83%, 72%, and 70% of ABC, CBS, and NBC in terms of households, Fox delivers 100%, 114%, and 76% of the attractive 18-49 demographics relative to those networks. believe the ability to deliver attractive demographic mixes leads to disproportionate advertising shares in local markets.
- Creative Asset Management. Much of the impetus behind our two recent ratings upgrades on the stock (to Attractive from Neutral in July 1997 and to Buy in November 1997) rests with the breadth of Sinclair's portfolio of properties and the tremendous opportunities the company has to sell nonstrategic assets at attractive prices. This was borne out by the company's recent sales of a television station in Plattsburgh, New York, and a radio property in Portland for \$72 million and \$126.5 million, respectively. We consider these transactions significant because 1) they show that the company was willing to capitalize on the aggressive acquisition environment to divest assets that no longer suited its long-term strategic blueprint; 2) they allowed the company to pay down debt; and 3) they significantly reduced the company's effective purchase price of the recently acquired Heritage radio and TV properties to roughly 9.3x 1998 BCF, by our estimates. We think these are smart moves, and we expect Sinclair to make similar "housecleaning" deals in the future as opportunities arise.
- More LMAs than Any Other Television Broadcaster. Sinclair has entered into more LMAs than any other operator by a wide margin.
 With the acquisition of Sullivan, the company will now operate 20

local marketing agreements in markets including Pittsburgh (19th. largest market), Baltimore (23rd), Raleigh-Durham, North Carolina (29th), Milwaukee (32nd), Columbus (34th), San Antonio (38th), Birmingham, Alabama (51st), Nashville (33rd), Oklahoma City (44th), Dayton (53rd), Charleston, West Virginia (57th), Charleston, South Carolina (117th), Greensboro (46th), Mobile, Alabama (62nd), Syracuse, New York (72nd), and Paducah (79th). Sinclair's LMAs reach approximately 10.6% of all U.S. households, and we estimate that they could account for as much as 12%-15% of the company's BCF.

ONE OF THE MOST AGGRESSIVE CONSOLIDATORS IN THE BUSINESS Thus far, Sinclair has delivered what it has set out to do — that is, to 1) acquire television properties in the middle-sized markets; 2) buy as many properties as possible; 3) create creative structures (e.g., LMAs) in order to help level the competitive and economic playing field relative to the more dominant local broadcast TV properties; 4) buy at attractive multiples; 5) link television and radio in as many markets as possible; 6) buy higher-growth independent networks (Fox and WB); and 7) be willing to purchase UHF stations.

Ultimately, the company has stated a goal of owning and/or controlling 100 television properties. We still believe it is more likely than not that the company will continue its aggressive acquisition strategy, mainly for the reason described below.

The FCC's UHF Reach Discrepancy. One impetus for this, we believe, is that the FCC is likely to revisit the UHF discount as part of its biennial review process in broadcasting. As we see it, the FCC's current "UHF discount" plays into Sinclair's expansion plans. For compliance with the Telecommunications Act of 1996's 35% U.S. TV household reach cap, UHF stations are only counted at 50% the reach of VHF stations in the same local market. For example, the New York television market has nearly 7% of all U.S. TV households. An owner of a VHF station would have 7% applied to its ownership cap, while an owner of a UHF station would have only 3.5% applied to its cap.

Although Sinclair reaches nearly 23% of all U.S. TV households, under the FCC's reach cap rule, this figure is reduced to 13.2%. This means that the company could add nearly 21% more coverage with VHF stations or almost 44% more coverage with UHF stations. In other words, with an all-UHF group, an operator could acquire television properties in markets 12 through 250-plus and not reach the ownership limits. However, if the UHF discount is revisited, which we think is likely, then it behooves broadcasters to acquire stations ahead of this potential outcome. This is just what Sinclair is doing.

The Most Acquisitive Broadcaster I: Viva Las Vegas

On February 3, 1997, Sinclair Broadcast Group announced it had entered into an agreement to purchase KUPN-TV, the UPN affiliate in Las Vegas, for \$87 million, which we estimate represents a multiple of 13.8x 1997 estimated \$6.3 million BCF for the station. We believe that Las Vegas is projected to be the fastest-growing market among the largest 100 markets in the U.S. through 2001. According to Sales

& Marketing Management magazine, Las Vegas' population is projected to increase from 1.1 million as of January 1, 1996, to 1.3 million by January 1, 2001 — a gain of almost 20%. Sinclair's purchase in Las Vegas was ultimately very strategic; it placed Sinclair in the fastest-growing market in the U.S., positioned the company in a market with competitors that owned far fewer properties (good competitive dynamic), allowed Sinclair to dramatically improve the results of the stations, and was used as a bargaining chip with WB in convincing that network to pay \$84 million to switch several of Sinclair's stations to the WB network (KUPN was a UPN affiliate).

We believe that Sinclair will substantially improve the operations of KUPN for several reasons. First, we believe that KUPN was controlled by a single-station owner (Channel 21 LP). Second, we believe that improvements could be made to KUPN's signal strength that may not be costly and would help KUPN reach more of this continually sprawling designated marketing area (DMA). Third, Nielsen began "metering" the Las Vegas market in October 1998, which should help the station's future ratings (generally UHF stations see dramatic improvements in audience levels in metered markets).

The Most Acquisitive Broadcaster II: Max Media

In November 1997, Sinclair announced the purchase of the Max Media properties, which included eight television properties (six of which will be wholly owned and two of which will be operated under local marketing agreements) and eight radio properties for \$255 million in cash. We believe this represents approximately 14.2x 1997 BCF of \$18 million and approximately 11.5x projected BCF of \$22 million for the properties. In the transaction, Sinclair added two NBC affiliates (Dayton and Tyler), three Fox affiliates (Syracuse, Paducah/Cape Girardeau, and Tri-Cities) and three UPN affiliates (Syracuse LMA, Paducah/Cape Girardeau LMA, and Charleston). Again, we expect the company to use its size advantages to improve the operations of this station group. Additionally, the purchase added LMAs in two markets for the company and added more leverage for the company in its discussions with UPN and WB over network compensation, which was eventually resolved with an \$84 million financial commitment from WB.

The Most Acquisitive Broadcaster III: Sullivan Purchase

On February 4, 1998, Sinclair Broadcast Group announced the purchase of Sullivan Broadcasting, Inc., the second-largest private television broadcaster (in terms of reach), for approximately \$1 billion, or an estimated 12.0x projected BCF of \$82 million. Sinclair will purchase 13 television stations, including Fox affiliates in Nashville (33rd-largest market); Buffalo, New York (40th); Oklahoma City (44th); Dayton, Ohio (53rd); Charleston, West Virginia (57th); Richmond, Virginia (59th); Rochester, New York (75th); Madison, Wisconsin (84th); Charleston, South Carolina (117th); and Utica, New York (169th). The station count also includes management of two local marketing agreements that Sullivan formed in Nashville and Greensboro, both of which are UPN affiliates. In sum, Sullivan Broadcasting's television station group reaches nearly 5.1% of all U.S. television households. In a

marketplace where it is becoming more difficult to purchase large groups, Sullivan was one of the more attractive group acquisition opportunities.

In 1998, we forecast that that the Sullivan properties can generate revenues of \$140 million (up from an estimated \$125 million in 1997) and BCF of \$80 million (versus approximately \$71 million last year). We expect Sinclair to make investments in ne_w programming (particularly news shows) to bolster local ratings at the new stations. Film payments represented approximately 10% of net revenues in 1997, which w_e believe may be low and could reflect that the company did not want to commit to new programs before a new owner could program the station.

Most Acquisitive Broadcaster IV: Buys Columbus ABC Affiliate

In mid-April 1998, Sinclair Broadcast Group announced the purchase of the license assets of WSYX-TV in Columbus, Ohio, the 34th-largest television market in the country. The company paid approximately \$256.3 million for the station, which includes the announced \$228.0 million price plus option extension payments made in 1996, 1997, and 1998 of approximately \$7.0 million, \$17.0 million, and \$4.5 million, respectively. The option extension payments permitted Sinclair to retain the right to purchase the television property while it worked through regulatory hurdles. Including these option extension payments, the total purchase price approaches \$256.3 million, representing a multiple of 14.2x our 1997 BCF estimate of \$18 million and 12.8x our 1998 BCF projection of \$20 million.

DOJ Permits Purchase of WSYX and Creates Policy Precedent Regarding LMAs. Recently, the FCC approved the purchase of WSYX-TV by Sinclair. We believe that the decision by the DOJ to permit the transaction is significant because, in its reply papers submitted in response to the Federal Communications Commission's November 1996 rulemaking, the DOJ delivered seemingly cautious tones regarding the consolidation of the television business. In those comments, the DOJ: 1) supported the debt-or-equity-plus concept (attributing ownership to an entity that has contributed a substantial portion of the capital invested in another broadcaster), 2) cautioned that mergers involving local broadcast stations may raise antitrust concerns in local advertising markets, 3) opined that LMAs should be attributable (like joint service agreements in radio), and 4) argued that there should be a notification and filing requirement for television LMAs to evaluate their significance. We believe the fact that the DOJ did not find any undue market power from the combination of a Big Three network affiliate and a Fox affiliate (the company currently owns WTTE, the Fox affiliate in Columbus) in a market with five television properties may provide a strong precedent for the DOJ's stance on local marketing agreements in general.

Digital Television: Power Me Up!

In its strategy toward digital television, we expect that Sinclair will take a bifurcated approach. We expect the company to aggressively pursue the value of both high definition television and the multicasting model. However, until a few months ago, it appeared that Sinclair's digital plans, no matter what its choice, would become thwarted by power allocations that would put the company (and other holders of

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UHF stations) at a severe competitive disadvantage relative to the majority of television operators in a given market. A few months ago, the FCC released a table of allocations that assigned a new digital channel to all operators of analog television channels. The document included channel positions and guidelines on maximum power that would be given to each operator of digital spectrum. The FCC believed that it was important to maintain the relative advantages that VHF television stations had relative to UHF television stations in terms of reach (VHF signals travel farther than UHF signals). In order to achieve this, the FCC decided to try to replicate a television station's Grade B contour (defined as satisfactory service expected at least 90% of the time for at least 50% of the receiving locations) so that it was similar to that of an operator's current analog signal.

Since the vast majority of digital licenses will be UHF allocations, the FCC proposed to maintain the current VHF/UHF coverage disparity by increasing power allocations to those operators that operated VHF stations in a local market. However, by focusing on replicating broadcaster's Grade B signal contours, power disparities between operators of VHF and UHF spectrum would have arisen. This is because, even though the current analog Grade A (defined as satisfactory service expected at least 90% of the time for at least 70% of the receiving locations) contours of a UHF and VHF station can be fairly similar in size, the Grade B contour of a VHF station reaches farther than that of a UHF station. So by replicating the Grade B contour, an existing VHF station, when granted higher power, is likely to extend its Grade A contour to an extent that VHF stations may enjoy increased advantage over UHF stations (versus the analog signal).

We were initially concerned that the level of disparity between power levels afforded VHF stations relative to UHF stations was too wide. On February 18, 1998, the FCC essentially addressed these fears by giving UHF broadcasters two options that we believe significantly improve the value of a UHF station's digital licenses relative to earlier proposals. We think both options have positive implications for the viability of digital services offered by UHF stations.

- Option No. 1. The first option for UHF stations would permit a UHF station to operate at one megawatt (1,000 kilowatts) within its service area. Previous proposals had provided power levels for UHF stations that approached 50 kilowatts. For these types of stations, the power level in the station's coverage area has been increased by nearly 20 times. In order to limit coverage of UHF stations relative to VHF stations (which, for the most part, were already granted one megawatt of power), UHF stations will be required to utilize tilt-beam technology to limit a UHF's station's signal coverage to its specified coverage area.
- Option No. 2. UHF stations (in fact, all television stations) are also permitted to increase their radiated power up to 200 kilowatts (if a station has been granted less than this amount) as long as the change in power would not result in more than a 2% increase in interference to the population served by another station in an adjacent market. (This is further qualified; if a station already experiences 10% interference to a population, and increasing power to 200 kilowatts does not

increase this interference to more than 10%, than a station may increase it_{S} power).

We think both of these proposals are big improvements over earlier plans. In addition, we foresee a scenario whereby a UHF broadcaster could essentially choose both options at the same time. For example, a UHF station could increase its radiated power to 200 kilowatts in a market as long as it meets the 2% adjacent-market interference test. This would effectively establish this UHF station's coverage area. Then, the UHF station could increase its power to one megawatt within this coverage area using tilt-beam technology. Ultimately, while UHF stations' signals may not reach as far over the horizon as those of VHF stations, UHF stations should be very competitive (if not equal) to most VHF stations within the contour that denotes a typical UHF station's coverage area (which typically represents the most densely populated area of a marketplace). We believe that power level increases should permit operators of UHF stations to compete more effectively with VHF stations in the digital world.

MAJOR RISKS

FCC's Final Decision on Local Television Ownership Not Known

In its November 1996 Proposed Rulemaking, the FCC put forth proposals in dealing with LMAs that run the gamut from "permanently grandfathering" these alliances to unwinding them after the next contractual term ends. The Department of Justice and the Department of Commerce weighed in, and both discourage duopoly (multiple television station ownership in a local market). In the Manager's Statement that accompanied the latest Budget Bill, Congress provided clarification of its intentions in the Telecommunications Act of 1996 by stating that the Act required the permanent grandfathering of LMAs and should permit duopolies if such arrangements are in the public interest. With many opinions and no rules, there is still debate on the final outcome.

We expect the FCC to settle the rulemakings that address local television ownership by third-quarter 1998 (our guess is in mid to late July). In our view, the Commission's focus will be slightly different than that of the DOJ. While the DOJ was most keenly interested in the competitive nature of the local marketplace, with an emphasis on the local advertising market, we believe that the FCC will focus on diversity issues — that is, are there enough distinct "voices" (translation separately owned media outlets) that the local market can withstand any form of concentration in television ownership. As we have long been saying, we doubt that duopoly will be permitted except in cases in which there is Grade B overlap in separate designated marketing areas.

We also continue to believe that the prospects for local marketing agreements are decent. In our view, LMAs will be judged by whether more viewership choices in a local market (many LMAs are able to become viable quickly through the support of better-capitalized broadcasters) are better for the public interest than having distinct voices (separate ownership of television properties). Based on our recent review of LMA statistics nationwide, LMAs do not capture enough viewership or revenue share, in general, to create undue harm to local markets. Of the 66 LMAs we located in the top 100 television markets, 74% earned less than 5% of the local markets'

revenue share, and 83% had less than a 4% viewership share. In fact, most LMAs now support most of the emerging networks, like WB (18% of LMAs) and UPN (39% of LMAs), and many are independents (32% of LMAs).

For Sinclair, we think the main issue will be whether the company can capture all of the economic value of its LMAs. We still believe (and the company agrees even more adamantly) that it can. Stations that are ultimately grandfathered will be able to continue operating unchanged. However, even if an LMA is ultimately deemed too viable, we think that these properties could still carry substantial intrinsic value in an extremely aggressive acquisition market if sold or swapped for another property.

FIRST-QUARTER SNAPSHOT

Sinclair Broadcast Group reported solid first-quarter 1998 BCF of \$50.4 million, in line with our expectations. Total pro forma revenues and BCF expanded by 5% and 6%, respectively. The company delivered these healthy results despite having to overcome some unavoidable obstacles. At the television properties, pro forma revenues expanded by 5.3%, to \$117.8 million in the first quarter, which was a solid performance given that 1) the company has only one CBS affiliate and did not really participate in the Olympics, and 2) comparisons with the first quarter of 1997 were difficult, as last year's period included \$1.5 million in Superbowl dollars. We estimate that pro forma BCF grew by approximately 6.3%, to \$52.7 million, which was solid in light of the \$1.5 million in WB launch costs associated with affiliation switches during the first quarter of 1998. Without this incremental cost, BCF would have expanded by approximately 9.3%. Adjusted further for the positive \$1 million impact that the Superbowl had on first-quarter 1997 results, pro forma BCF would have been about 11.5% higher. On a pro forma basis, we believe radio revenues increased roughly 8%-9%, to \$19 million from \$17 million, and that BCF surged nearly 40%, to \$6 million from \$4 million the year before. We believe these strong results reflect 1) improvements in the operations of the stations, 2) continued benefits from the consolidation of the company's radio markets, and 3) benefits from radio/TV cross-selling in some markets.

FINANCIAL OUTLOOK

Sinclair Broadcast Group's pro forma cash revenue growth for 1998 is expected to approach 8%, reaching \$813.0 million in 1998 versus \$753.0 million in 1997. We view this performance as particularly solid, considering that the company will not participate as strongly as other broadcasters with more significant mixes of Big Three network affiliates. First, with only one CBS affiliate, Sinclair was not able to broadly participate in Winter Olympic advertising. Second, in general, groups with a significant balance of Fox, UPN, and WB affiliates will not capture as much of the available political advertising as will the pure Big Three affiliate groups, which rely more heavily on news programming. An additional factor that could hurt 1998 results will be the Super Bowl, during which the company made approximately \$1 million in BCF at its sizable Fox television group last year. However, improved management of recently acquired properties, and/or integration of the new station groups with existing stations, and/or synthesizing television and radio properties in the same market, and/or improving the results of immature owned and LMA-ed television properties should lead to solid revenue and cash flow growth for the company. In 1998, we still expect the company to invest in its properties. Pro forma film payments could advance 13%, to approximately \$65 million in 1998 to reflect the company's commitment to improving its schedule with purchases of syndicated shows such as "Seinfeld," "Frasier," and "Third Rock from the Sun." Pro forma BCF could expand by 6%, to \$425.0 million, in 1998. We also expect the company to generate only \$10.5 million in free cash flow (\$0.23 per share) because of increases in working investment in the Sullivan and Heritage acquisition properties, which should approach \$95 million. Moreover, we believe the company will invest \$35 million in capital expenditures in order to begin building its digital facilities in some of its larger-market properties. Net debt could approach \$2.5 million by year-end 1998 (including high yield trust obligation preferred stock [HYTOPS] but not including exchangeable preferred stock.).

In 1999, we expect the company's BCF to expand 7.3%, to \$456.2 million from \$425.0 million in 1998, driven by 1) continued improvement in the integration of recently acquired properties with existing television stations at a national (reach) or local (with LMA-ed station); 2) the synthesizing of the television and radio properties in markets in which the company operates both; and 3) better results at the immature owned and LMA-ed television properties. The company could generate more than \$125 million in free cash flow (\$2.50-plus per share) once working investment levels of its new acquisitions have normalized. Net debt could approach \$2.4 billion by year-end 1999 (including HYTOPS but not including exchangeable preferred stock.).

nibit 69. Television Properties — Sinclair Broadcast Group

Exhibit 69. 1010					1996	1996 Gross	1996		
					In-Market	Market	Station Ad		
					Viewership	Revenues	Revenues	Revenue	
Market	Market Rank	Station	Affiliation	Channel Frequency	Share(1) (%)	(S MM)	(\$ MM)	Share	Oversell(2)
Minneapolis, MN	14	KLGT	WB	23/UHF	4	\$259	\$9	3	0.9
Minneaporo	19	WPGH	FOX	53/UHF	12	\$204	\$37	18	1.5
pitsburgh Sacramento, CA	20	KOVR	CBS	13/VHF	15	\$194	\$27	14	0.9
Sacramento	21	KDNL	ABC	30/UHF	12	\$201	\$30	15	- 1.2
SI. Louis	23	WBFF	FOX	45/UHF	13	\$186	\$37	20	1.5
Baltimore Raleigh-Durham, NC	29	WLFL	FOX	22/UHF	11	\$127	\$23	18	1.6
Raleigradi	30	WSTR	WB	64/UHF	10	\$152	\$16	11	1.1
Cincinnati	32	WCGV"	IND	24/UHF	10	\$145	\$16	11	1.1
Milwaukee	31	KSMO	WB	62/UHF	11	\$150	\$ 19	12	1.1
Kansas City	33	WZTV	FOX	17/UHF	6	\$136	\$20	14	2.4
Nastville Nastville	34	WITE	FOX	28/UHF	10	\$162	\$30	18	1.8
Columbus,OH Ashville/(Greenville,SC)	35	WLOS	ABC	13/VHF	22	\$88	\$22	24	1.1
Ashville/(Greenment)	38	KABB	FOX	29/UHF	14	\$122	\$20	16	1.1
San Antonio	40	WUTV	FOX	29/UHF	10	\$102	\$27	26	2.6
Buffalo Norfolk-Portsmouth, VA	39	WTVZ	FOX	33/UHF	10	\$92	\$14	15	1.5
Norfolk-Portsmouth, VV	44	KOKH	FOX	25/UHF	8	\$96	\$9	10	1.2
Oklahoma City	46	WXLV	ABC	45/UHF	15	\$71	\$11	15	1.0
Greensboro, NC	51	WITO	WB	21/UHF	12	\$87	\$14	16	1.4
Birmingham	53	WKEF	NBC	22/UHF	21	\$80	\$12	15	0.7
Dayton, OH	57	WCHS	ABC	8/VHF	19	\$48	\$ 12	19	1.0
Charleston, WV	59	WRLH	FOX	35/UHF	11	\$ 68	\$12	18	1.6
Richmond	62	WEAR	ABC	35/UHF	26	\$60	\$12 \$ 19	31	1.2
Mobile-(Pensacola)	63		FOX				· · · ·		
aint. MI	_	WSMH		66/UHF	12	\$52	\$9	18	1.5
_{as} Vegas	61	KUPN	WB	21/UHF	5	\$116	\$ 10	9	1.8
Syracuse	72	WSYT	FOX	68/UHF	9	\$48	\$8	17	1.9
exington, KY	67	WDKY	FOX	56/UHF	10	\$52	\$7	13	1.3
Des Moines, IA	69	KDSM	FOX	17/UHF	11	\$ 51	\$9	18	1.7
Rochester, NY	75	WUHF	FOX	31/UHF	13	\$62	\$13	20	1.6
ape Girardeau (Paducah)	79	KBSI	FOX	23/UHF	9	\$35	\$4	12	1.4
Aadison, WI	84	WMSN	FOX	47/UHF	14	\$39	\$7	18	1.3
ri-Cities	93	WEMT	FOX	39/UHF	7	\$29	\$ 3	12	1.7
yter/Longview, TX	107	KETK	NBC	56/UHF	31	\$27	\$8	30	1.0
harleston, SC	117	WMMP	UPN	36/UHF	3	\$34	\$1	2	0.7
lloomington (Peoria, IL)	110	WYZZ	FOX	43/UHF	11	\$ 31	\$4	13	1.2
itica, NY	169	WFXV	FOX	33/UHF	7	\$11	\$1	10	1.5
ome (Utica), NY	166	WPNY	UPN	11/UHF	0	\$11	\$0	0	NA
uscaloosa, AL	187	WD8B	WB	17/UHF	24	\$ 5	\$2	33	1.4

Source: Company documents; BIA Investing in Television '97; Bear, Stearns & Co. Inc.

Exhibit 70. Television Properties Managed Through Local Marketing Agreements by Sinctair Broadcast Group

1996 Gross 1996

						10 mail 4	Dhadt A 1		_
					In-Market Viewership		Station Ad Revenues		
		Station	Affiliation		Share(1) (%)	(\$ MM)	(\$ MM)		Oun
Market	Market Rank	WFBC	IND	40/UHF	2	\$88	\$3	3	Overseto
heville	35	WNUV	WB	54/UHF	9	\$186	\$20	11	1,4 7
ltimore	23	WABM	IND	68/UHF	4	\$87	\$ 20	3	1,2
mingham	51	WTAT	Fox	24/UHF	12	\$67 \$34	\$5 \$ 6	3 17	0.9
arleston, SC	117				_		• -		1.4
yton	53	WRGT	Fox	45/UHF	11	\$80	\$12	15	1.4
ensboro	46	WUPN	UPN	48/UHF	0	\$71	\$0	0	NA
ianapolis	25	WTTV	WB	4/VHF	13	\$180	\$32	18	1.4
waukee	32	WVTV	WB	18/UHF	9	\$145	\$16	11	1.2
bile-Pensacola	62	WFGX	WB	35/UHF	0	\$60	\$1	1	NA
shville	33	WUXP	UPN	30/UHF	5	\$136	\$9	6	1.3
ahoma City	44	KOCB	WB	34/UHF	8	\$96	\$ 9	9	1.1
iucah	79	WDKA	UPN	49/UHF	0	\$35	\$0	0	NA
sburgh	19	WCWB	WB	22/UHF	5	\$204	\$9	4	0.9
eigh-Durham	29	WADC	UPN	28/UHF	5	\$127	\$8	6	1.3
n Antonio	38	KRRT	WB	35/UHF	9	\$122	\$10	8	0.9
acuse	72	WNYS	UPN	43/UHF	0	\$48	\$0	0	NA NA
arleston, WV	57	WVAH	Fox	11/VHF	11	\$48	\$9	18	1.7
Vegas	61	KFBT	WB	33/UHF	3	\$116	\$3	3	0.9
er/Longview, TX	107	KLSB	NBC	19/UHF	Ō	\$27	\$0	ō	NA
umbus. OH	34	WITE	Fox	28/UHF	10	\$162	\$30	18	1.8
umbus, OH	34	WITE	Fox	28/UHF	10	\$162	\$30	18	

⁽¹⁾ in-Market Viewership Share equals a television station's wewership share divided by total of viewership shares for all commercial television stations.

Source: BIA Investing in Television '97; company reports.

⁽²⁾ Oversell is the ratio of station revenue share to "in-market" audience share.

⁽³⁾ Station List is Representative of All Announced Acquisitions or Dispositions

Exhibit 71. Sinclair Broadcast Group Combined Operating Cash Flow and Income Statement — Quarterly 1997 and 1998E 1998E Net Cash Broadcasting Revenues \$98.9 \$120.8 \$113.3 \$138.2 \$471.2 \$112.6 \$150.0 \$196.0 \$232.8 \$691.4 Nei Barter Revenues \$9.3 \$10.6 \$11.4 \$13.9 \$45.2 \$10.0 \$13.0 \$12.5 \$11.5 \$47.0 Net Della Compensation Payments - WB \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$1.3 \$1.5 \$1.5 \$1.5 <u>\$5.8</u> Total Net Revenues \$131.3 \$124.7 \$152.1 \$516.4 \$108.2 \$123.B \$164.5 \$210.0 \$245.8 \$744.1 Operating Expenses (As reported - Includes some Barter) (\$44.3)(\$47.1) (\$45.6) (\$46.9) (\$183.9) (\$48.9) (\$57.7) (\$83.6) (\$85.0) (\$275.1) Baner Expenses (\$10.0) (\$7.4)(\$8.9) **/\$11.8**) (\$38.1)(\$9.3)(\$11.3)(\$10.5)(\$9.8) (\$40.9) Total Operating Expenses (\$51.7) (\$56.0) (\$55.5) (\$58.7) (\$222.0) (\$58.2)(\$69.0) (\$94.1) (\$94.8)(\$316.0) (\$13.7)(\$12.5)(\$11.9)(\$12.9) (\$51.1) (\$15.3)(\$15.5) (\$19.0) (\$21.5 (\$71.3) Broadcast Cash Flow \$42.8 \$62.8 \$57.3 \$80.5 \$243.4 \$50.4 \$80.1 \$96.9 \$129.5 \$356.8 Corporate Overhead (\$4.0) (\$14.4) (\$3.5) (\$3.5) (\$4.6) (\$4.0) (\$4.0) (\$16.6) (\$3.5) (\$4.0) Operating Cash Flow (EBITDA) \$53.9 \$76.5 \$45.8 \$39.3 \$59.3 \$229.0 \$76.1 9.592 \$125.5 \$340.2 Plus: Film Payments (Cash Flow Basis) \$13.7 \$12.5 \$11.9 \$12.9 \$51.1 \$15.3 \$15.5 \$19.0 \$21.5 \$71.3 Less: Amortization of Program Contracts (\$17.5) (\$13.4)(\$16.2) (\$19.2) (\$66.3) (\$16.0) (\$15.B) (\$21.5) (\$23.5) (\$76.8) Less: Dep. and Amort. of Prop. and Equip. (\$4.2)(\$4.2)(\$4.4)(\$5.3) (\$18.0)(\$4.8) (\$5.0) (\$7.5) (\$7.5)(\$24.8) Less: Amort. of Intangibles, Non-Compete, Consulting (\$19.0)(\$18.4)(\$14.3) (\$16.1) (\$67.8) (\$16.1)(\$21.0) (\$28.0) (\$28.0)(\$93.1) Deferred Compensation (\$0.1)(\$0,1)(\$0.1) (\$1.3) (\$1.6) (\$0.5)(\$0.5)(\$0.5) (\$0.5) (\$2.0)Operating Income \$12.2 \$35.8 \$30.7 \$47.6 \$126.3 \$23.7 \$49.3 \$54.5 \$87.5 \$214.9 Interest and Amortization of Debt Discount Expenses (\$27.1)(\$24.9)(\$25.3) (\$21.1) (\$98.4) (\$27.4)(\$26.1) (\$48.1) (\$48.1) (\$149.8) Trust Distributions (\$1.2)(\$5.8) (\$5.8)(\$5.7) (\$18.6)(\$5.8)(\$5.8)(\$5.8) (\$5.8) Other Income (Expense) \$0.5 **\$**0.5 \$0.3 \$0.8 \$2,2 \$0.2 **\$**0.3 \$2.2 \$1.4 \$0.3 Pre-tax Income before Unusual Items (\$15.5)\$5.6 (\$0.2) \$21.6 \$11.5 \$17.5 \$44.1 (\$8.1) SO A \$33.8 Taxes - Federal and State \$7.9 (\$3.8)\$0.1 (\$20.2) (\$16.0) (\$9.9) (\$0.0) (\$19.1) (\$24.2) \$4.8 Gain/(Loss) before Extraordinary Items, net of Tax (\$7.6)\$1.8 (\$0.1) \$1.4 \$0.8 \$14.7 (\$4.5) (\$3.3) \$7.6 \$19.9 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 Extraordinary Items \$0.0 Loss on Early Exting. of Debt. Net of Tax Benefit \$0.0 \$0.0 \$0.0 (\$6.1) (\$6.1) \$0 D \$0.0 \$0.0 \$0.0 \$0.0 Gain on Purchase of Warrants \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 Cum. Effect of Change in Accting Principle \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 Net Income (Loss) (\$7.6)\$1.8 (\$0.1) (\$4.6)(\$10.6) (\$3.3)\$7.6 \$0.8 \$14.7 \$19.9 Preferred Dividends (\$0.2) (\$2.6) \$0.0 \$0.0 (\$2.8) (\$2.6) (\$2.6) (\$2.6) (\$2.6 (\$10.4) Net income/Loss to Common Stockholders \$9.5 (\$7.6) \$1.8 (\$0.3)(\$7.2 (\$13.4)(\$5.9) \$5.1 (\$1.8) \$12.1 **Statistics** Margins (Percent of Net Revenues) 1097 2Q97 <u>3Q97</u> 4Q97 1997 1Q98 <u> 2098E</u> <u>3098E</u> 4Q98E 1998E Operating Expenses 183.7% 79.3% 2.0% 0.39 37.6% 10.5% 22.3% 83.4% 81.39 49.6% 9.6% Film Payments 12 7% 9.5% 9.5% 8.5% 9.9% 12.4% 9 4% 9.1% 8.8% **Broadcast Cash Flow** 39.5% 47.8% 46.0% 52.9% 47.1% 40.7% 48.7% 46.1% 52.7% 47.9% 22% Corporate Overhead 3.2% 2 7% 28% 2 6% 2.8% 3.7% 2 4% 1.9% 1.6% Operating Cash Flow 36.3% 45.2% 43.2% 50.3% 44.3% 37.0% 46.2% 44.2% 51.0% 45.7% **Growth Rates** 14.4% 68.3% 61.6% Net Cash Broadcasting Revenues 126.6% 66.0% 13.1% 7.79 36.4% 25.2% 44.1% 183.7% 79.3% -0.3% 37.6% 10.5% 22.3% 83.4% 81.3% 49.6% Operating Expenses 2.0% Film Payments 113.5% 122.2% 64.2% 15.99 67.79 11.4% 23.7% 60.1% 66.6% 39.7% **Broadcast Cash Flow** 17.7% 27.4% 69.0% 60.9% 46.6% 87.6% 48.6% 8.6% 12.89 28.6% 27.0% 48.6% Operating Cash Flow 46.3% 8 2% 11.8% 16.5% 28.2% 72.4% 64.0% 83.1% Shares/Per Share Shares - Average Outstanding Shares 35.0 35.4 39.1 36.0 39.4 47.6 47.6 47.6 45.5 35.1

\$0.05

\$0.05

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(\$0.04)

(\$0.04)

\$0.26

\$0.26

\$0.21

\$0.21

EPS (Average Shares) - After Extra. Items Source: Bear, Stearns & Co. Inc.

EPS (Average Shares) - Before Extra. Items

1(5)

Exhibit 72	Sinciair Broade	ast Group Com	hined Operating Cas	h Flow and Income	Statement — 1996-99E
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Exhibit 72. Sinciair Broadcast Group Combined Operating Cash	1996	1997	1998E	<u> </u>
				1990E
Net Cash Broadcasting Revenues	\$346.5	\$471.2	\$691.4	`
Barter Revenues	\$32.0	\$45.2	\$47.0	\$863 _{.4}
Affiliate Compensation Payments - WB	\$0.0	\$ 0.0	\$5.8	\$48.0
Revenues	\$378.5	\$516.4	\$744.1	\$6.0 \$917.4
Operating Expenses (As reported - Includes some Barter)	(\$133.6)	(\$183.9)	(\$275.1)	(\$339.4)
Barter Expenses	(\$25,2)	(\$38.1)	(\$40.9)	(\$40.a)
Total Operating Expenses	(\$158.8)	(\$222.0)	(\$316.0)	(\$40.8) (\$380.2)
Film Payments	(\$30.5)	(\$51.1)	(\$71.3)	(\$81.0)
Broadcast Cash Flow	\$189.2	\$243.4	\$356.8	\$456.2
Corporate Overhead	(\$8.9)	(\$14.4)	(\$16.6)	(\$17.0)
Operating Cash Flow (EBITDA)	\$180.3	\$229.0	\$340.2	\$439.2
Plus: Film Payments (Cash Flow Basis)	\$30.5	\$51.1	\$71.3	\$81.0
Less: Amortization of Program Contracts	(\$47.8)	(\$66.3)	(\$76.8)	(\$83.0)
Less: Amortization of Excess Program Contracts	(\$3.0)	\$0.0	\$0.0	\$0.0
Less: Dep. and Amort. of Prop. and Equip.	(\$11.7)	(\$18.0)	(\$24.8)	(\$30.0)
Less: Amort. of Intangibles, Non-Compete, Consulting	(\$58.5)	(\$67.8)	(\$93.1)	(\$100 _{.0)}
Deferred Compensation	(\$0.7)	<u>(\$1.6)</u>	(\$2.0)	(\$2.0)
Operating Income	\$88.9	\$126.3	\$214.9	\$305.2
Interest and Amortization of Debt Discount Expenses	(\$84.3)	(\$98.4)	(\$149.8)	(\$172.0)
Trust Distributions	\$0.0	(\$18.6)	(\$23.2)	(\$23.3)
Other Income (Expense)	<u>\$3.5</u>	<u>\$2.2</u>	<u>\$2.2</u>	\$ 1.0
Pre-tax Income before Unusual Items	\$8.1	\$11.5	\$44.1	\$110.9
Taxes - Federal and State	(\$6.9)	(\$16.0)	(\$24.2)	(\$37.6)
Gain/(Loss) before Extraordinary Items, net of Tax	\$1.1	(\$4.5)	\$19.9	\$73.3
Extraordinary Items				
Loss on Early Exting. of Debt, Net of Tax Benefit	\$0.0	(\$6.1)	\$0.0	\$0.0
Gain on Purchase of Warrants	\$0.0	\$0.0	\$0.0	\$0.0
Cum. Effect of Change in Accting Principle	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Net Income (Loss)	\$1.1	(\$10.6)	\$19.9	\$73.3
Preferred Dividends	\$0.0	(\$2.8)	(\$10.4)	(\$10.4)
Net Income/Loss to Common Stockholders	\$1.1	(\$13.4)	\$9 .5	\$63.0

Source: Bear, Stearns & Co. Inc.

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Sinclair Broadcast Group Combined Operating Cash Flow and	Income Statem	ent — 1996-99E	(cont'd)	
Schibit 72. Sinclair Broadcast Group Combined Operating Cash Flow and State of Cash Flow an				
مستنز المهد				
(Percent of Net Revenues)	<u>1996</u>	<u>1997</u>	<u>1998E</u>	<u>1999E</u>
	35.3%	35.6%	37.0%	37.0%
	8.0%	9.9%	9.6%	8.8%
Jace Udoli I VII	50.0%	47.1%	47.9%	49.7%
	2.4%	2.8%	2.2%	1.9%
Corporate Costs Operating Cash Flow	47.6%	44.3%	45.7%	47.9%
Growth Rates				
Not Cash Divadeasing Nevertues	83.6%	36.4%	44.1%	23.3%
Onerating Expenses	126.7%	37.6%	49.6%	23.4%
cim Payments	52.7%	67.7%	39.7%	13.5%
groadcast Cash Flow	70.2%	28.6%	46.6%	27.9%
Operating Cash Flow	70.4%	27.0%	48.6%	29.1%
Shares/Per Share				
shares - Average Outstanding Shares	37.4	36.0	45.5	47.7
EPS (Average Shares) - Before Extra. Items	\$0.03	(\$0.20)	\$0.21	\$1.32
EPS (Average Shares) - After Extra. Items	\$0.03	(\$0.37)	\$0.21	\$1.32
Pro Forma Income Statement Information(1)				
Net Revenues		\$753.0	\$813.0	\$917.4
Total Operating Expenses(excludes Corporate Overhead, Special Bonuses,D&A)		(\$352.0)	(\$453.6)	(\$461.2)
Broadcast Cash Flow (before LMA Expenses)		\$401.0	\$425.0	\$456.2
County Potes				
Growth Rates			0.00/	40.00
Net Revenues			8.0%	12.8%
Broadcast Cash Flow (before LMA Expenses)			6.0%	7.3%
•				

(1) Pro forma for all acquisitions.

Source: Bear, Stearns & Co. Inc.

1997	1998E	1999E
\$229.0	\$340.2	
\$2.2		\$ 439.2
(\$117.0)		\$1.0
	· · · · · · · · · · · · · · · · · · ·	(\$195.3)
· ·	, ,	(\$10.4)
\$110.9	\$140.5	\$46.6) \$188.0
		₩100.0
(\$26.9)	(\$95.0)	(\$10.0)
(\$19.4)	(\$35.0)	(\$10.0)
(\$46.3)	(\$130.0)	(\$60.0)
\$64.6	\$10.5	\$128.0
(\$3.0)	\$0.0	\$0.0
\$ 0.0	\$0.0	\$0.0
\$ 0.0	\$0.0	\$0.0
\$0.0	\$0.0	\$0.0
(\$63.0)	(\$507.0)	\$0.0
(\$77.6)	(\$52.5)	\$0.0
(\$13.0)	(\$242.0)	\$0.0
\$0.0	(\$985.0)	\$0.0
\$0.0	(\$228.0)	\$0.0
(\$16.0)	• •	\$0.0
· · ·	• •	\$0.0
• •		\$0.0
		\$0.0
•		\$0.0
(\$181.6)	(\$1,824.4)	\$0.0
\$126.5	\$0.0	\$0.0
\$450.0	\$0.0	\$0.0
\$200.0		\$0.0
\$158.6	\$429.0	\$0.0
\$172.5		\$0.0
		\$0.0
The state of the s	• •	(\$140.0
•		\$0.0
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	(4.5)	
\$1.80	\$ 0.23	\$2.68
* ****	, 	72.00
\$130.2	\$4.3	(\$7.7)
		\$2,190.7
		\$2,198.4
ψ 541. 3	ψ ૮, υ ∠ υ.Ψ	φ∠, 130.4
\$200.0	\$200.0	\$200.0
<u>\$172.5</u>	<u>\$172.5</u>	\$172.5
\$1,314.0	\$2,698.9	\$2,570.9
\$386.6	\$408.4	\$439.2
2.4	5.7	5.0
3.0	6.2	5.5
	\$229.0 \$2.2 (\$117.0) (\$2.4) (\$0.9) \$110.9 (\$26.9) (\$19.4) (\$46.3) \$64.6 (\$3.0) \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 (\$63.0) (\$77.6) (\$13.0) \$0.0 (\$16.0) (\$11.1) \$2.0 \$0.0 \$0.0 \$11.1) \$2.0 \$0.0 \$158.6 \$172.5 (\$108.8) (\$695.8) (\$4.6) (\$1.4) (\$11.1) (\$32.0) \$253.9 \$136.9 \$1.80 \$1.80 \$139.2 \$1,080.7 \$941.5	\$229.0 \$340.2 \$2.2 (\$117.0) (\$173.0) (\$2.4) (\$10.4) (\$9.9) (\$18.5) \$110.9 \$140.5 \$(\$26.9) (\$95.0) (\$19.4) (\$35.0) (\$46.3) (\$130.0) \$64.6 \$10.5 \$(\$3.0) \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$0.0 \$

History 74. Sinclair Broadcast Group Valuation Using Discounted Cash Flow	Analysis			
Ethibit 74. Sinclair Broadcast Group Valuation Using Discounted Cash Flow Cash Flows for Valuation Purposes		1999E	2000E	2001E
ora Tax Income		\$111	\$159	\$207
plus: Interest Expense		<u>\$172</u>	<u>\$161</u>	<u>\$154</u>
Unlevered Pretax Income		\$283	\$320	\$361
Taxes Assuming Rate of	40.0%	(\$113)	(\$128)	<u>(\$144)</u>
Unlevered Net Income		\$170	\$192	\$216
Non-Cash Expenses		\$215	\$221	\$221
Film Payments		(\$81)	(\$85)	(\$85)
Working Capital Investment		(\$10)	(\$10)	(\$10)
Capital Expenditures - Maintenance		<u>(\$17)</u>	(\$17)	(\$17)
Unlevered Free Cash Flows from Operations (FCF)		\$277	\$301	\$326
Terminal Value of Free Cash Flow Assuming Perpetual Growth Rate of	5.9%			\$7,105
Cash Flows for Valuation Purposes		<u>\$277</u>	<u>\$301</u>	<u>\$7,431</u>
Equity Value	<u></u> .			
Enterprise Value (NPV) Using Discount Rate of	10.8%	\$6,607		
Senior Debt Outstanding - Pro-Forma After Offering		(\$2,326)		
HYTOPS		(\$200)		
Conv Preferred Stock		(\$173)		
Cash on Balance Sheet		\$4		
Equity Value		\$3,912		
Share Price				
Shares - Fully Diluted		48.4		
n i i i i i i i i i i i i i i i i i i i		70.7		

Source: Bear, Stearns & Co. Inc.

Upside to Target

Current Stock Price

Private Market Value - Target Price

Discount Appplied to PMV
Target Stock Price

\$80.83

20.0% \$64.7

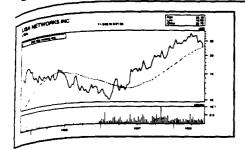
\$52.25

23.8%



1JSA NETWORKS, INC. (USAI-223/4)

Rating: Buy



52-Week Range \$29-\$13

<u>EPS</u> 12/97: \$0.12 12/98E: \$0.07 12/99E: (\$0.05)

<u>P/E</u> 12/97A: NA 12/98E: NA

<u>EBITDA (mil) (1)</u> 12/97PF: \$460.8 12/98PF: \$518.3 12/99E: \$623.6

(1)Before Broadcasting and Overhead.

EV/EBITDA 12/98PF: 11.2x 12/99PF: 9.3x

<u>Dividend</u> Nil

Yield

Com. Shares (mil)

Equity Market Capitalization (mil) \$7,971

Debt/EBITDA (1998E)

1.7x

Est. 3-Yr EBITDA Growth Rate

A Media Powerhouse in the Making

In our view, investors buying USAI shares today will be participating in the emergence of a media powerhouse that boasts one of the finest managements and the most powerful portfolio of assets in the media business. The chief principals involved in the continuing formation of USA Networks include such industry heavyweights as Barry Diller, CEO of the company; Edgar Bronfman, Jr., CEO of Seagram; John Malone, CEO of Liberty Media; and Paul Allen, cofounder of Microsoft. Depending on the ultimate size of the stake owned by Liberty, these companies and/or individuals could own approximately 70%-75% of the total shares outstanding of the new company.

We expect these executives to combine their managerial talents, experience, assets, ideas, and contacts to create an extremely valuable franchise. We look for the benefits of the integration of USA Networks's assets to kick in strongly in 1999, at which time cash flow growth could exceed 20% (before corporate overhead and losses at the emerging USA Broadcasting). Reflecting the company's potential for superior BCF growth relative to its peers, we think a multiple of 14.5x is appropriate. This implies a 12-month price target of \$31 (based on our 1999 BCF estimate).

- Creating "Distribution Tracks." USA Networks is focused on creating, leveraging, and integrating "distribution tracks," or channels through which products, programming, and services are ultimately delivered to the consumer. In our view, the company has already assembled five significant distribution tracks 1) Home Shopping Network (HSN) (distribution of consumer goods); 2) Ticketmaster (distribution of tickets and ticketing services); 3) USA Cable Networks (distribution of programs and advertising); 4) USA Broadcasting (distribution of programming and advertising); and 5) Studios USA (distribution of developed programming). We expect the company to capitalize on the inherent strengths of these existing distribution channels to enhance its strategic positioning, as well as to expand into new business ventures (for example, fulfillment of those assets that might be contributed by Liberty).
- Creating Multiple Revenue Streams. As the company builds out and integrates existing businesses, it should be able to tap a number of revenue streams, including 1) advertising (through its cable networks and broadcast television stations); 2) subscriber fees (cable networks); 3) servicing charges (Ticketmaster); 4) fulfillment

revenues (Ticketmaster and HSN); 5) merchandise sales (HSN); 6) barter revenues (Studios USA); 7) cash payments for programming (Studios USA); and 8) direct selling through "short sell" shopping (cable networks and broadcast TV stations). We believe that these multiple sources of revenue should help diversify risk for the company.

- Focus on Localism. Barry Diller believes that "networkification" is proliferating across the television world and that there is a distinct opportunity in taking the opposite route — by becoming intenselv local. For example, the proposed program schedule of Miami USA the company's first television broadcast property, will rely almost solely on local programming. The station recently entered into a contract to air Miami Heat games. With few programming hours available to most local stations, which rely on networks to supply the majority of prime-time programming, most network affiliates cannot air games from local sports teams. Unencumbered by network programming, a pure-play broadcaster such as Miami USA (launching June 1998) is uniquely qualified to carry local sports. We think this model can be exported to other markets, including Los Angeles, the next market on the agenda (slated for launch in the first quarter of 1999). In addition to local sports, the station will air locally produced programming, including shows coproduced by the local Miami newspaper and magazine. In a sense, many of the company's other businesses also focus on localism, including Ticketmaster (local entertainment events), Home Shopping Network. and Internet operations (the ultimate form of localism and individual choice).
- Balance Sheet Will Remain Unlevered. We expect that the company's leverage should be extremely low by third-quarter 1998; debt could approach 1x EBITDA. After the Ticketmaster transaction, net debt could near \$911.8 million. Three significant events — the sale of a television station in Baltimore, the proposed sale of the company's SF Broadcasting properties for \$307 million, and the possible contribution from Liberty of assets (discussed in more detail below) — have the potential to reduce pro forma debt to \$600-\$700 million, in our view. Ultimately, we believe that the company aims to maintain a 2:1 debt-to-EBITDA ratio. We believe that it is likely to add fulfillment businesses to its portfolio, but only if acquisition values are conservative (less than 6.5x EBITDA) and do not change the leverage profile in a meaningful way. Unless it makes a huge acquisition, USA Networks is likely to be severely underlevered. Management might consider repurchasing shares if an acquisition alternative is not suitable.

VALUATION: PLENTY OF UPSIDE IN THE STOCK At the stock's current price (\$22³/₄), the equity value of the company (given 339.2 million fully diluted shares) equals \$7.7 billion. Including net debt that approximates \$768.8 million (after the sale of the television property in Baltimore, the proposed

sale of SF Broadcasting properties for \$307 million, and the potential contribution of Liberty assets/cash), the enterprise value approaches \$8.5 billion.

Our estimates incorporate the following assumptions: 1) the USA Broadcasting properties are worth \$1.5 billion (owned and managed stations reach nearly 38.4% of all U.S. TV households, including stations in which the company has a minority interest position); 2) Sci-Fi is worth \$850 million (we raised our valuation of this asset from \$650 million, given the network's momentum in the first quarter and based on a \$15-\$20 per subscriber valuation); 3) the international assets (50% of which will be owned by USA Networks) are worth \$45 million; 4) the nearly breakeven Home Shopping Network business in Germany is worth approximately \$200 million; and 5) the company's emerging Internet businesses are worth \$100 million: On this basis, we believe that the value of the assets on a cash flow basis approaches \$5.80 billion.

The cash flow of assets valued on a cash flow basis for 1998 is approximately \$488 million (\$519 million less \$31 million for Sci-Fi, which is valued separately), representing a multiple of 11.2x EBITDA. Our \$519 million "core" cash flow may prove to be conservative. Based on 1999 estimates, the multiple should reach 10.0x \$583 million in EBITDA (\$623.6 million less \$41 million for Sci-Fi). We still believe that there is significant upside in this company as it strives to create value by 1) developing multiple distribution tracks; 2) focusing on localism; 3) building multiple revenue streams; 4) implementing new business models; 5) adding value with its unlevered balance sheet; 6) buying back stock if leverage drops to a level deemed too low for the company and should no acquisition opportunities arise; and 7) integrating the approximately \$750 million-plus asset that is likely to be contributed by Liberty Media Group.

Assuming a multiple of 14.5x our 1999 cash flow projection, our 12-month target price is \$31.

CREATING NEW BUSINESS MODELS

Using Existing Operations as a Springboard into New Businesses

Integrating and capitalizing on the inherent synergies that exist among its various distribution tracks is an essential part of the USA Networks story, in our view. We see many ways in which the company could create new business opportunities.

• USA Networks could potentially use the distribution muscle of USA Network (73 million cable households/74% of all TV households) and Sci-Fi (48.3 million cable households/49% of all TV households) to help increase the distribution of Home Shopping Network (51.4 million cable households/52% of TV households) by negotiating with local cable system operators to carry a "package" of all three networks. In addition, should Liberty contribute an asset that is distribution-oriented, USA would have an even greater ability to leverage its distribution prowess. If HSN could reach QVC's distribution stature (60 million households), we estimate that it could earn \$30 million in incremental EBITDA.

- The company could use local television stations as "incubators" for crealing programming that can be distributed through Studios USA.
- USA Networks could use Studios USA's produced programming to program USA's cable networks as well as its broadcast TV stations.
- It could use HSN and Ticketmaster's call centers to provide third-party calling business.
- The company could use the tremendous call volume at HSN and Ticketmaster to "upsell" (sell customers another product or service).
- It could sell Broadway show and concert memorabilia on Home Shopping Network in conjunction with Ticketmaster events.
- USA Networks could create short sell (one-to-two minute mini-infomercials) programming, which can be aired on USA's cable networks and USA's broadcast television stations. This would essentially introduce direct selling (home shopping style) into a traditional advertising medium. We believe the potential of this concept was affirmed recently when NBC sold videocassettes of the hugely popular "Merlin" miniseries during the airing of the program.
- The company could air first-rate programming that airs on the USA Network of Sci-Fi Channel on broadcast television stations. This could have a dramatic impact on the company's ability to increase the advertising rates of its programs. For example, if USA aired the same program on its cable networks and local stations at the same time, it could fundamentally challenge the way advertising is priced for these shows; if both cable and television show the same program, will cable ad rates increase to a level similar to broadcast rates? (In general, we estimate that cable cost per thousand advertising rates are up to 40% below those of broadcast television.)

Tapping Opportunities Within Existing Distribution Tracks

There are also many ways in which the company could generate more business in each of its existing distribution tracks, in our opinion.

The Internet. Using Internet sites for Ticketmaster, Home Shopping Network, and First Auction, USA Networks could build a much more extensive Internet-related operation. We regard the Internet as a major source of growth for the company in terms of selling and auctioning product, as well as for advertising and promoting local businesses (USA has an investment in CitySearch, which is essentially the Internet yellow pages). Moreover, Ticketmaster's Internet site is becoming more popular, selling more than 523,000 tickets (\$19.5 million of retail value) in the first quarter of 1998. We believe that the company can add new capacity or marketing opportunities to the Internet sites that it has or plans to launch.

- Third-Party Fulfillment. We expect USA Networks to seek new ways to use the fulfillment capabilities at Home Shopping and Ticketmaster to build a third-party fulfillment business. While the company is one of the dominant sellers of electronic media and has effectively penetrated that market, management believes that it has just scratched the surface of the potential in third-party fulfillment. USA Networks obviously knows this business well; the company shipped more than 26 million units in 1997. Management hopes this business will deliver \$50 million in run-rate EBITDA by 2000 and significantly more than that in the future.
- Turning Local Newspapers and Magazines into Partners at USA Broadcasting. Typically, local measured-media players compete vigorously against each other for ad dollars. At Miami USA, the company's first stand-alone television property, USA has actually entered into the coproduction of shows with the local newspaper (*The Miami Herald*) and magazine (*Ocean Drive*). We believe this makes friends of traditional competitors and actually helps the local station earn cross-promotional business at the local market's newspaper and magazine.
- Seeking Ways to Improve Interactivity. In a sense, the HSN and Ticketmaster models are very primitive forms of interactivity. For example, at HSN, an item is shown on a screen, and the customer "interacts" by picking up a phone and calling to order the product. We expect USA Networks to increase the potential number of interactive opportunities and to raise the level of sophistication in the interactive process through the development of its E-commerce business opportunities.
- Exporting the Home Shopping Model Abroad. Some of QVC's fastest growth has come from the development of its international business. USA Networks has also successfully started to expand overseas through its operations in Germany (which are expected to reach breakeven in 1999) and in Japan (where real cash flow potential is being hurt by the limited distribution of the HSN programming). We expect the company to explore other international home shopping opportunities as they arise.
- Expanding the Home Shopping Model Domestically. Recently, the company announced that it would enter into agreement with Univision to launch a Spanish language home shopping network, which it launched on March 30, 1998, on the Galavision network. We expect this new venture to achieve breakeven in 1999.
- Universal and USA Networks Join Forces. Universal and USA Networks formed a 50/50 joint venture to exploit the international development of the USA Network, Sci-Fi, and a new action/suspense channel known as 13th Street. Each partner has agreed to fund up to \$100 million for the project. It should also be noted that HSN has the option not to participate, at which time Universal would be obligated to buy the company's stake for an agreed price.

ADVANTAGES
OF PORTFOLIO
BEGIN TO KICK IN

The company's entry into many business lines should diminish overall risk for USA Networks as the diversification of its portfolio of assets should reduce its dependence on any one major business. Our 1998 outlook incorporates the following assumptions about the company's various ventures:

Home Shopping Network (HSN)

We expect this electronic retail business' EBITDA growth to slow in 1998 following its strong performance in 1997. For 1997, HSN recorded revenue gains of 8.1%, or \$72.7 million, to \$967.3 million in 1997 from \$894.6 million in 1996. EBITDA advanced by approximately 30.8%, or \$39.7 million, to \$168.5 million. However, this momentum began to slow in the fourth quarter, when the electronic business recorded revenue gains of 6.3%, and EBITDA advanced by approximately 16.0%. We attribute this performance to troubles with merchandising, an issue the company expects to tackle head-on with the hiring of a new merchandising head. This sluggishness spilled into January and February 1998. Despite a recovery in March, we anticipate a negative EBITDA comparison for the first quarter of 1998. We note, however, that we had already anticipated that comparisons to be difficult in the first and second quarter of this year, as HSN posted record results in the same periods a year ago. We expect comparisons in the second half of 1998 to be easier, as business had slowed materially in the third quarter (Princess Diana's death) and fourth quarter (merchandising problems).

For 1998, we expect HSN's pro forma EBITDA to grow 10.57%, to \$181.0 million, on a 9.07% increase in revenue. While the company did mention that it was confident this guidance would turn out to be conservative, it is roughly \$20 million below the projections we used when launching research coverage on HSN in August 1997. On the positive side, we believe the company is making significant strides in bringing HSN Germany to breakeven and believe that it will continue to pursue opportunities in other foreign markets.

Cable Networks Are Exceeding Our Expectations

We believe that progress at the cable networks — USA Networks and Sci-Fi Channel — is running ahead of schedule.

■ USA Networks. In 1997, USA Networks had pro forma EBITDA of \$180 million on \$628.0 million in revenue, which represented margins of approximately 28.7%. We think that this network could deliver significant upside to the company by 1) potentially charging higher advertising rates given ratings improvements, 2) an improved programming schedule, 3) management of the network by one company, as we believe the network may have suffered from serving two masters (Viacom and Universal), and 4) restraining cost expansion. USA finished the first quarter of 1998 with a 30% increase in ratings versus the 1997 average (2.6 cable universe rating versus a 2.0 rating in the same period in 1997). In addition, USA has regained its No. 1 spot among all cable networks, matching its highest ratings book in history (which it achieved three years ago) while facing much more intense cable network competition. USA also has widened the particularly large lead between it and the second-highest-rated cable

network, TNT. We credit these strong ratings to USA's exceptionally strong programming ("Saved by the Bell," "USA High," "USA Sports," "La Femme Nikita," "Silk Stalkings," "Pacific Blue," and "USA Movies"), including the premier of an original movie "Moby Dick," which captured an incredible 8.6 cable rating, beating, we believe, the three established broadcast networks. USA will add "Xena" and "Hercules" to its schedule in the fall of 1998, which should further improve ratings. USA runs more original movies than any other cable network and had the second-highest ratings in cable in 1997. Driven by this momentum (and the explosive first-quarter 1998 momentum discussed below), we believe that USA's margins could approximate 30.4% in 1998, based on our revenue forecast of \$690 million and our cash flow projection of \$210 million in cash flow, and reach 32.1% in 1999, based on our revenue forecast of \$759 million and our cash flow projection of \$759 million and our cash flow projection of \$244 million.

- Sci-Fi Channel. In 1997, Sci-Fi Channel had pro forma EBITDA of \$23.0 million on \$111.0 million in revenue, which represented margins of approximately 20.7%. Sci-Fi Channel continues its maturation, now reaching 48.3 million TV households. We expect significant cash flow growth at this network as it capitalizes on its differentiated programming genre, high-quality programming mix, and high concentration of attractive demographics of women and men aged 18-49. Sci-Fi is an emerging cable network that is showing strong signs of momentum in terms of subscriber growth and viewership. In 1997, the network's prime-time ratings improved (17%, to 0.7 from 0.6) more than any other cable network except for the TV Food Network. Additionally, during the second half of 1998, the channel will begin airing original, uncut, remastered versions of "Star Trek" television episodes, which should drive ratings growth further. We believe that Sci-Fi's margins could approximate 22.17% in 1998, based on our revenue forecast of \$140.0 million and our cash flow projection of \$30.1 million in cash flow, and reach 25.5% in 1999, based on our revenue forecast of \$161.0 million and our cash flow projection of \$41.0 million.
- Studios USA. In 1997, Studios USA had pro forma EBITDA of \$35.0 million on \$371.2 million in revenue, which represented margins of approximately 9.4%. We believe that the prospects for 1998 are solid, driven by 1) strong network product; 2) the top two made-for-syndication drama shows; and 3) ratings increases at "The Jerry Springer Show." Studios USA currently has several shows in network prime time, including "Law & Order" (which is in its last year of a contract for the 1998-99 broadcast season), "Brother's Keeper" (ABC) and "Hollyweird" (FOX). It will be interesting to see if Studios USA will be able to participate in the escalation of some license fees when "Law & Order" comes up for renewal. The company currently produces the top two made-for-syndication dramas, "Xena" and "Hercules," and also produces some of the most popular talk shows, including "The Jerry Springer Show" and "Sally Jessy Raphael." Jerry Springer's ratings have been phenomenal during the past several months, and the show is starting to beat the "The Oprah Winfrey Show" in many markets. The dramatic boost in ratings has translated into rate increases. Costs per spots have risen 30%-50% higher for the barter slots that Studios USA keeps. However, the Springer show may be somewhat reinvented to deemphasize its combative nature. We believe that Studios USA's margins could approximate

8.6% in 1998, based on our revenue forecast of \$430.0 million and our $cash_{flow}$ projection of \$37.0 million in cash flow, and similarly reach 8.5% in 1999, based on our revenue forecast of \$470.0 million and our cash flow projection of \$40.0 million.

Ticketmaster Poised for Robust Growth

In 1997, Ticketmaster had pro forma EBITDA of \$56.5 million on \$349.0 million in revenue, which represented margins of approximately 16.2%. We believe that the Ticketmaster business is headed for vigorous growth, fueled by 1) its entrance into new foreign markets (Chile, Argentina, Europe, and Australia); 2) consolidated ownership of a majority of its domestic business; and 3) its development of an online ticketing business. In addition, once the company closes on Ticketmaster, we believe it will aggressively improve the profitability of this enterprise. In mid-May, the company announced that the existing COO, Terry Barnes, was named to the new CEO position at Ticketmaster, replacing Ticketmaster founder Fred Rosen, who will step down on July 1, 1998.

- We believe that USA will immediately attack the level of corporate overhead at Ticketmaster, which was estimated to reach \$23 million in 1998. To provide a perspective, this level of overhead is projected to be \$8 million higher than the corporate overhead for all of USA Networks, Inc.
- Ticketmaster currently publishes a magazine, Live!, which loses \$3-\$5 million in cash flow per year. We believe this publication could be closed down.
- N2K, which is one of the country's preeminent on-line music retailers (Music Boulevard Network), announced a retail and marketing agreement distribution deal with Ticketmaster for which Ticketmaster will be paid \$6 million per year for two years. This should translate to an incremental \$5 million of cash flow per year for Ticketmaster and enhance USA's other E-commerce businesses.

We believe that Ticketmaster's margins could approximate 15.0% in 1998, based on our revenue forecast of \$405.3 million and our cash flow projection of \$60.3 million in cash flow, and similarly reach 17.0% in 1999, based on our revenue forecast of \$452.2 million and our cash flow projection of \$77.2 million.

USA Broadcasting

We believe that USA Broadcasting should post cash flow losses of approximately \$28 million in 1998, \$2 million less than our original expectation. This primarily reflects the fact that the second TV station's launch was moved to first-quarter 1999 from fourth-quarter 1998. Given its reach of nearly 38.4% (including those stations in which the company has a minority interest) of U.S. households, the size of the television advertising business in its markets (\$8.3 billion), and its programming assets (from USA Networks, Sci-Fi Channel, Universal Television, and local station development), we believe that USA Networks can develop a viable economic model for its television stations. (If anyone can figure out a new television model, we're confident that Barry Diller and Jon Miller, CEO of USA Broadcasting, can.) We

expect USA Broadcasting to launch its long-awaited first television property in Miami shortly after the completion of the May sweeps period on June 8, 1998. We consider the USA Broadcasting business model to be extremely compelling, given that 1) it establishes a station with no network affiliation; 2) it focuses on the development of local programming; 3) it plans to enter into coproduction deals with other local media (newspapers and magazines, in this case) to turn media competitors into partners; 5) it boasts a marquee programming show (the Miami Heat), which should bring instant recognition to the station; 6) it limits operating costs of the station to 2%-3% of the market's TV advertising dollars; and 7) it plans to capture 4%-5% of the local TV market's ad dollars. We expect the company to launch only one TV station in 1998 and to ramp up stations in Los Angeles, New York, and Chicago in 1999. On a preliminary basis, we believe that losses at the stations should reach approximately \$70.2 million in 1998 on \$60.0 million in revenues as the company continues to invest in building out its emerging network.

The Company

We believe that 1998 pro forma revenues should expand by 12.0% in 1998, to \$2.8 billion from \$2.5 billion in 1997. We project that EBITDA before corporate overhead and losses at USA Broadcasting should expand by 12.7% in 1998, to \$519.3 million from \$460.8 million in 1999. For 1999, we believe that revenues will likely expand by 13.6%, to \$3.2 billion from \$2.8 billion in 1998. We project that EBITDA before corporate overhead and losses at USA Broadcasting could climb by 20.0% in 1999, to \$623.6 million from \$519.3 million in 1998. In 1999, free cash flow from operations (after interest, dividends, capital expenditures, and working investment) could approach \$87.9 million after generating a funding need at this level of \$15.1 million in 1998.

GIVE ME LIBERTY...

According to the proxy that USA Networks released in January 1998 as part of the process of approving the merger of Seagram's Universal assets into HSNi, Inc. (which was renamed USA Networks, Inc.), Liberty is obligated to, at a minimum, invest \$300 million in the company through the contribution of cash or an asset by June 30, 1998, in exchange for shares valued at \$20 per share (which represents 15.0 million shares). From the date of the closing of this transaction until the day that Liberty contributes an asset and/or cash, the price at which Liberty will buy in will increase by an annualized rate of 7.5%. Theoretically, if Liberty waited until June 30, the shares would be exchanged for \$20.56. We believe that any contributions made by Liberty after June 30 would be exchanged for shares valued at the prevailing market rate.

In addition, the proxy cites that it is expected that a third-party investor will contribute \$200 million, which could include assets and/or cash. It is anticipated that USA Networks will issue new shares valued at the prevailing market price. This \$200 million could be contributed by one or more individuals and/or institutions in a private placement or, in the case of Liberty, additional assets.

Seagram (Universal) Holds a Capital Call in Three Specified Events

Universal is required to purchase additional shares of USA Networks, Inc., at \$20 to maintain its 45% ownership interest in the event of the following situations.

- Investment by a "Third Party." When a third party invests in the company (expected to be \$200 million and represent 8.4 million shares), Universal must increase its stake. In this example, Universal would be obligated to purchase 6.8 million shares for approximately \$137 million.
- Conversion of HSN Debt. It is anticipated that \$100 million of Home Shopping Network debt will be converted at a strike price of \$13.34, which represents 7.5 million incremental shares. When this occurs, Universal would be obligated to purchase an additional 6.2 million shares, worth approximately \$123 million.
- Ticketmaster Merger Completed. If the Ticketmaster merger is approved, the company is expected to issue 13.72 million shares in exchange for the Ticketmaster shares. If and when this occurs, it is expected that Universal will purchase an additional 11.2 million shares for \$228 million.

Seagram's Call — Economics Made Simple

As was contemplated when the transaction was announced, Universal, in exchange for its cable network business (USA and Sci-Fi) and Universal Television assets, will receive approximately 122.2 million shares (at \$20, this equates to \$2.4 billion) and \$1.633 billion in cash, \$300 million of which will be deferred until the closing of the transaction with Liberty (by June 30, 1998). If Liberty contributes more than \$300 million of assets, the cash contributed by Liberty will be less than \$300 million and Universal will be obligated to buy more shares in order to maintain its 45% stake. Let's walk through two examples to better understand the mechanics.

Example One. Liberty chooses to contribute \$300 million in cash (which is Liberty's minimal contribution) and chooses cash option.

- Step One: USA Networks issues 110.0 million shares to Universal (value of \$2.2 billion at \$20 per share) and \$1.875 billion in cash (\$300 million is deferred), which provides total proceeds to Universal of \$4.075 billion.
- Step Two: Liberty contributes \$300 million in cash to USA Networks. Liberty is issued 15.0 million shares at \$20 per share
- Step Three: In order to maintain its 45% stake in USA Networks, Universal will contribute \$245 million in cash (\$300 million divided by 55% multiplied by 45%) and will receive 12.2 million shares. In any case, it is expected that this will occur at the close, due to the fact that Liberty is obligated to contribute at least \$300 million.
- End of the Day: Universal has 122.2 million shares and \$1.63 billion in cash (total \$4.075 billion); Liberty has an additional 15.0 million shares valued at

\$300 million; and USA Networks has reduced uses for the transaction to \$1.33 billion (\$1.875 billion less \$300 million from Liberty and \$245 million from Universal) before the three mandatory events described above. After all mandatory events have taken place, we estimate there would be 339.3 million shares and \$911.8 million of debt.

Exhibit 75. USA Networks, Inc. Current Ownership

	Shares	A Shares	B Shares	Total Shares	Percent
Seagram	147.7	67.7	80.0	147.7	43.5%
Management - Options	16.1	16.6	0.0	16.6	4.9%
Liberty	56.6	31.0	26.0	57.0	16.8%
Paul Allen	14.8	14.8	0.0	- 14.8	4.4%
Public	<u>104.0</u>	<u>102.7</u>	<u>0.4</u>	<u>103.1</u>	<u>30.4%</u>
Total Shares	339.2	232.8	106.4	339.2	100.0%

Source: Company reports; Bear, Stearns & Co. Inc.

Example Two: Liberty chooses to contribute \$400 million in assets (\$100 million more than minimum obligation; chooses to contribute assets as opposed to the cash option).

- Step One: USA Networks issues 110.0 million shares to Universal (value of \$2.2 billion at \$20/share) and \$1.875 billion in cash (\$300 million is deferred), which provides total proceeds to Universal of \$4.075 billion.
- Step Two: Liberty contributes \$400 million in assets to HSN. Liberty is issued 20.0 million shares at \$20 per share
- Step Three: Liberty's \$300 million cash obligation is reduced by an amount equal to 45% of the value of the contributed asset, which, in this case, equals \$180 million. So, Liberty contributes \$120 million in cash and purchases three million incremental shares (\$120 million equals \$300 million less 45% of \$400 million).
- Step Four: In order to maintain its 45% stake in USA Networks, Universal will contribute \$425 million in cash (\$400 million in assets plus \$120 million in cash contributed by Liberty divided by 55% multiplied by 45%) in exchange for 21.2 million shares. (Because of Liberty's deferred obligation, 12.2 million shares will be issued at the closing of Universal transaction.)
- End of the Day: Universal has 131.2 million shares and \$1.45 billion in cash (total \$4.075 billion); Liberty has an additional 26.0 million shares valued at \$520 million; and USA Networks has reduced uses for transaction to \$1.33 billion (\$1.875 billion less \$120 million from Liberty and \$425 million from Universal). After the three mandatory events mentioned above, a total of 178.2 million shares would be outstanding, and the company's cash flow would increase by the amount of EBITDA associated with the asset contributed by Liberty (and by any synergies created between the contributed asset and the company's existing asset base).

8.6% in 1998, based on our revenue forecast of \$430.0 million and our cash flo_w projection of \$37.0 million in cash flow, and similarly reach 8.5% in 1999, based on our revenue forecast of \$470.0 million and our cash flow projection of \$40.0 million.

Ticketmaster Poised for Robust Growth

In 1997, Ticketmaster had pro forma EBITDA of \$56.5 million on \$349.0 million in revenue, which represented margins of approximately 16.2%. We believe that the Ticketmaster business is headed for vigorous growth, fueled by 1) its entrance into new foreign markets (Chile, Argentina, Europe, and Australia); 2) consolidated ownership of a majority of its domestic business; and 3) its development of an online ticketing business. In addition, once the company closes on Ticketmaster, we believe it will aggressively improve the profitability of this enterprise. In mid-May, the company announced that the existing COO, Terry Barnes, was named to the new CEO position at Ticketmaster, replacing Ticketmaster founder Fred Rosen, who will step down on July 1, 1998.

- We believe that USA will immediately attack the level of corporate overhead at Ticketmaster, which was estimated to reach \$23 million in 1998. To provide a perspective, this level of overhead is projected to be \$8 million higher than the corporate overhead for all of USA Networks, Inc.
- Ticketmaster currently publishes a magazine, *Live!*, which loses \$3-\$5 million in cash flow per year. We believe this publication could be closed down.
- N2K, which is one of the country's preeminent on-line music retailers (Music Boulevard Network), announced a retail and marketing agreement distribution deal with Ticketmaster for which Ticketmaster will be paid \$6 million per year for two years. This should translate to an incremental \$5 million of cash flow per year for Ticketmaster and enhance USA's other E-commerce businesses.

We believe that Ticketmaster's margins could approximate 15.0% in 1998, based on our revenue forecast of \$405.3 million and our cash flow projection of \$60.3 million in cash flow, and similarly reach 17.0% in 1999, based on our revenue forecast of \$452.2 million and our cash flow projection of \$77.2 million.

USA Broadcasting

We believe that USA Broadcasting should post cash flow losses of approximately \$28 million in 1998, \$2 million less than our original expectation. This primarily reflects the fact that the second TV station's launch was moved to first-quarter 1999 from fourth-quarter 1998. Given its reach of nearly 38.4% (including those stations in which the company has a minority interest) of U.S. households, the size of the television advertising business in its markets (\$8.3 billion), and its programming assets (from USA Networks, Sci-Fi Channel, Universal Television, and local station development), we believe that USA Networks can develop a viable economic model for its television stations. (If anyone can figure out a new television model, we're confident that Barry Diller and Jon Miller, CEO of USA Broadcasting, can.) We

expect USA Broadcasting to launch its long-awaited first television property in Miami shortly after the completion of the May sweeps period on June 8, 1998. We consider the USA Broadcasting business model to be extremely compelling, given that 1) it establishes a station with no network affiliation; 2) it focuses on the development of local programming; 3) it plans to enter into coproduction deals with other local media (newspapers and magazines, in this case) to turn media competitors into partners; 5) it boasts a marquee programming show (the Miami Heat), which should bring instant recognition to the station; 6) it limits operating costs of the station to 2%-3% of the market's TV advertising dollars; and 7) it plans to capture 4%-5% of the local TV market's ad dollars. We expect the company to launch only one TV station in 1998 and to ramp up stations in Los Angeles, New York, and Chicago in 1999. On a preliminary basis, we believe that losses at the stations should reach approximately \$70.2 million in 1998 on \$60.0 million in revenues as the company continues to invest in building out its emerging network.

The Company

We believe that 1998 pro forma revenues should expand by 12.0% in 1998, to \$2.8 billion from \$2.5 billion in 1997. We project that EBITDA before corporate overhead and losses at USA Broadcasting should expand by 12.7% in 1998, to \$519.3 million from \$460.8 million in 1999. For 1999, we believe that revenues will likely expand by 13.6%, to \$3.2 billion from \$2.8 billion in 1998. We project that EBITDA before corporate overhead and losses at USA Broadcasting could climb by 20.0% in 1999, to \$623.6 million from \$519.3 million in 1998. In 1999, free cash flow from operations (after interest, dividends, capital expenditures, and working investment) could approach \$87.9 million after generating a funding need at this level of \$15.1 million in 1998.

GIVE ME LIBERTY...

According to the proxy that USA Networks released in January 1998 as part of the process of approving the merger of Seagram's Universal assets into HSNi, Inc. (which was renamed USA Networks, Inc.), Liberty is obligated to, at a minimum, invest \$300 million in the company through the contribution of cash or an asset by June 30, 1998, in exchange for shares valued at \$20 per share (which represents 15.0 million shares). From the date of the closing of this transaction until the day that Liberty contributes an asset and/or cash, the price at which Liberty will buy in will increase by an annualized rate of 7.5%. Theoretically, if Liberty waited until June 30, the shares would be exchanged for \$20.56. We believe that any contributions made by Liberty after June 30 would be exchanged for shares valued at the prevailing market rate.

In addition, the proxy cites that it is expected that a third-party investor will contribute \$200 million, which could include assets and/or cash. It is anticipated that USA Networks will issue new shares valued at the prevailing market price. This \$200 million could be contributed by one or more individuals and/or institutions in a private placement or, in the case of Liberty, additional assets.

Seagram (Universal) Holds a Capital Call in Three Specified Events

Universal is required to purchase additional shares of USA Networks, Inc., at 20_{10} maintain its 45% ownership interest in the event of the following situations.

- Investment by a "Third Party." When a third party invests in the company (expected to be \$200 million and represent 8.4 million shares), Universal must increase its stake. In this example, Universal would be obligated to purchase 6.8 million shares for approximately \$137 million.
- Conversion of HSN Debt. It is anticipated that \$100 million of Home Shopping Network debt will be converted at a strike price of \$13.34, which represents 7.5 million incremental shares. When this occurs, Universal would be obligated to purchase an additional 6.2 million shares, worth approximately \$123 million.
- Ticketmaster Merger Completed. If the Ticketmaster merger is approved, the company is expected to issue 13.72 million shares in exchange for the Ticketmaster shares. If and when this occurs, it is expected that Universal will purchase an additional 11.2 million shares for \$228 million.

Seagram's Call — Economics Made Simple

As was contemplated when the transaction was announced, Universal, in exchange for its cable network business (USA and Sci-Fi) and Universal Television assets, will receive approximately 122.2 million shares (at \$20, this equates to \$2.4 billion) and \$1.633 billion in cash, \$300 million of which will be deferred until the closing of the transaction with Liberty (by June 30, 1998). If Liberty contributes more than \$300 million of assets, the cash contributed by Liberty will be less than \$300 million and Universal will be obligated to buy more shares in order to maintain its 45% stake. Let's walk through two examples to better understand the mechanics.

Example One. Liberty chooses to contribute \$300 million in cash (which is Liberty's minimal contribution) and chooses cash option.

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- Step Two: Liberty contributes \$300 million in cash to USA Networks. Liberty is issued 15.0 million shares at \$20 per share
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56.6	31.0	26.0	57.0	16.8%
14.8	14.8	0.0	14.8	4.4%
<u>104.0</u>	<u>102.7</u>	<u>0.4</u>	<u>103.1</u>	30.4%
339.2	232.8	106.4	339.2	100.0%
	147.7 16.1 56.6 14.8 104.0	147.7 67.7 16.1 16.6 56.6 31.0 14.8 14.8 104.0 102.7	147.7 67.7 80.0 16.1 16.6 0.0 56.6 31.0 26.0 14.8 14.8 0.0 104.0 102.7 0.4	147.7 67.7 80.0 147.7 16.1 16.6 0.0 16.6 56.6 31.0 26.0 57.0 14.8 14.8 0.0 14.8 104.0 102.7 0.4 103.1

Source: Company reports; Bear, Steams & Co. Inc.

Example Two: Liberty chooses to contribute \$400 million in assets (\$100 million more than minimum obligation; chooses to contribute assets as opposed to the cash option).

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MAINTAINING AN UNLEVERED BALANCE SHEET

We expect that USA Networks's leverage will be extremely low by the second or third quarter of 1998, with debt approximating 1x EBITDA. After the Ticketmaster transaction, net debt could approach \$912 million. Three significant events are likely to reduce this pro forma debt significantly.

- Baltimore Television Sale. In November 1997, as expected, the company announced that it was selling its Baltimore, Maryland, television property WHSW-TV, to United Television (the partner with Viacom in the UPN network) for \$80 million. In this case, we believe the company was a direct beneficiary of Sinclair Broadcast Group's recent decision to switch its affiliation in Baltimore from UPN to WB. In Baltimore, there were only five viable television properties which effectively shut out the UPN network. This move helps solve UPN's distribution problems in Baltimore, in our opinion. In addition, this step may allow the company to increase its stake in a station in Washington, D.C., which HSN could not have owned outright given signal overlap issues with the station in Baltimore. Washington has nearly two times as many TV households as Baltimore. The Baltimore station, which reaches approximately 1.0 million television households (1% of all U.S. television households), represents only 3.0% of Cityvision's 33.5% total owned and operated clearance base. Including the stations in which the company has a minority stake, the Baltimore station represents only 2.8% of the company's attributable television base.
- Sale of SF Broadcasting. The company recently announced that it was selling its SF Broadcasting properties (four Fox affiliates located in Green Bay, Wisconsin; New Orleans; Mobile, Alabama; and Honolulu) for \$307 million, or in excess of our original estimate of \$270-\$300 million. USA has the option to receive 1) \$307 million in cash or 2) \$257 million in cash and \$50 million in Emmis Class A common shares. Given its high tax basis and its large tax operating loss carryforward (deriving from Savoy Pictures), we believe that USA could net approximately \$110 million in net proceeds for its 50% ownership in the stations (News Corp. owns the other 50% of the SF Broadcasting properties). After this transaction closes, pro forma net debt should fall to an estimated \$850 million.
- Potential Contribution by Liberty of Assets Valued at Greater than \$500 Million. We believe there is a strong chance that Liberty will contribute an asset in excess of the \$500 million investment, as spelled out in USA Networks's January 12, 1998, proxy (\$300 million in cash by Liberty and an unspecified \$200 million third-party investment). We believe that Liberty will likely want to increase its stake in USA to the permissible 25% level. Purely as an example, if Liberty contributes an asset worth \$750 million, it would essentially contribute a \$750 million asset and nothing in cash (Liberty's minimum \$300 million cash contribution is reduced by 45% of the value of the contributed asset). This \$750 million theoretical asset contribution would exceed the minimum cash contribution (\$300 million) and a theoretical \$200 million third-party investment by \$250 million. In order to maintain its 45% stake in the company, Universal would contribute an additional \$200 million. This would begin an iterative process by which Liberty and Universal would have the right to contribute cash in order to maintain their 25% and 45% respective stakes. Assuming that this

process ultimately leads to \$300 million in incremental cash contributions, USA Networks's pro forma debt would fall to \$550 million. If the assets contributed by Liberty have cash flow, it is quite possible that the company's leverage would decrease to below 1:1x EBITDA. Ideally, we believe that USA Networks should maintain a 2:1 debt-to-EBITDA ratio. We expect the company to add fulfillment businesses to its portfolio, but only if acquisition values are conservative (less than 6.5x EBITDA) and will not meaningfully change the leverage profile. Unless the company makes a huge acquisition, USA is likely to be severely underlevered. We believe that management might consider repurchasing shares if attractive acquisitions are not available.

After these three events (and the purchase of some TV properties for a net \$35 million), we estimate that net debt could approach \$768.8 million. However, this is based solely on what we know today and what has been suggested by the proxy. We do not ultimately know what asset and/or level of cash that Liberty will contribute and whether or not a third-party investment in the company will occur.

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	Debt
Pro forma Debt before Mandatory Purchase Events	
USAI Debt at Close- 4Q 1997	\$208.1
Plus: Savoy Debt - 4Q 1997	\$37.8
Plus: Ticketmaster Debt - 4Q 1997	\$150.5
Less: Year-End 1997 Cash (Estimated between USAI and Ticketmaster)	(\$25.0)
Year-end 1997 Net Debt (excludes SF Broadcast Debt)	\$371.3
Plus: Purchase of Universal Assets	\$1,355.0
Less: Cash at USAI	(\$5.0)
Pro-Forma Debt	\$1,721.3
Third Party/Liberty/Increased Partner Investment	
Third Party/Liberty/Increased Partner Investment	(\$200.0)
Less: Mandatory Preemptive Right - Seagram	(\$137.0)
Total Debt Reduction - Third Party Investment	(\$337.0)
Conversion of \$100 Million Convertible HSN Note	
Less: Conversion of \$100 Million Convertible Note	(\$100.0)
Less: Mandatory Preemptive Right - Seagram	(\$123.0)
Total Debt Reduction - Third Party Investment	(\$223.0)
Ticketmaster Merger	
Less: Issuance of Shares for Ticketmaster Merger	\$0.0
Less: Mandatory Preemptive Right - Seagram	<u>(\$249.5)</u>
Total Debt Reduction - Third Party Investment	(\$249.5)
Total Mandatory Preemptive Right Payments	(\$809.5)
Debt After Mandatory Preemptive Right Payments	\$911.8
Plus: Broadcast Properties (Atlanta, Orlando)	\$35.0
Less: Net Proceeds of Sale of Baltimore Station	(\$68.0)
Less: SF Broadcasting Proceeds	<u>(\$110.0</u>
Adjusted Net Debt	\$768.8
Note: Bear, Stearns & Co. estimates - Does not reflect actual contribution of Liberty assets and/or cash on which Liberty Media is obligated to close by June 30, 1998. The actual Liberty transaction is unknown at this time. Third-party investment is also unknown at this time.	

Other Proxy Details

Several other interesting developments were articulated in the company's January 1998 proxy relating to the merger of Universal's television production business and cable network properties.

- Universal's Assets Should Provide Company with Tax Shield. Universal will contribute the USA Network assets (USA and Sci-Fi) and the United Television assets to the company. These assets will include those that were recently purchased from Viacom (50% stake that Universal did not own for \$1.7 billion), and this tax basis will be transferred to the company. Written off over 15 years, we believe this should provide a tax shield of \$45.2 million per year (\$113 million at assumed tax rate of 40%), which, discounted at the company's estimated cost of capital of 10%, yields a present value of approximately \$350 million.
- Universal Can Increase Its Stake in the Company to 57.5% Over Time. After a four-year standstill period from closing (beginning on February 12, 2002), Universal may increase its stake in the company to 50.1% and raise this stake by 1.5% per year until Universal owns a maximum of 57.5%.
- Limited Shares Available for Public. Only 25%-30% of USA's pro forma shares will be available to the public (101.8 million shares), which could cause some scarcity in the stock, particularly given the company's high profile.
- New Shares to Be Issued, Not Purchased in Market. We do not expect liquidity for the public shares to be affected after closing because, for the next few years, Liberty and Universal will not be allowed to purchase shares in the open market as a mechanism for retaining their respective ownership percentage in the company. We expect the company to issue new shares to maintain ownership percentages.
- Universal Adding Impressive Members to HSN Board. Under the assumption that Universal maintains a 40% stake (although it is expected that it will not drop below 45%) in USA, which we believe is virtually assured, Universal has nominated four directors to serve on the USA Networks board Edgar Bronfman, Jr. (president and chief executive officer of Seagram); Robert W. Matschullat (vice chairman and chief financial officer of Seagram); Frank J. Biondi (chairman and CEO of Universal Studios); and Samuel Minzberg (president and chief executive officer of Claridge Inc.). Liberty recently named Leo Hindray and Robert Bennett to the board of the LLC (since Liberty is precluded from having ownership interests in television properties). The LLC will not hold the broadcast assets and Ticketmaster stake until the rest of Ticketmaster is acquired, at which point Ticketmaster will become part of the LLC.

FIRST-QUARTER SNAPSHOT

USA Networks reported a pro forma first-quarter 1998 EBITDA increase of 30.4%, to \$121.4 million from \$93.1 million in the first quarter of 1997. Excluding corporate overhead and losses at the fledgling USA Broadcasting, cash flow